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## **Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans**



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## Acronyms

ADA	Austrian Development Agency
ALMP	Active labour market policies
BiH	Bosnia and Herzegovina
CDAD	Central Donor Assistance Data Base (the former Yugoslav Republic of Macedonia)
CEE	Central and Eastern Europe
CPESSEC	Center of Public Employment Services of Southeast European Countries
DCF	Donor Coordination Forum (Bosnia and Herzegovina)
DSDC	Department of Strategy and Donors Coordination (Albania)
ETF	European Training Foundation
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GDP	Gross Domestic Product
HBS	Household Budget Survey
IAP	Individual Action Plan
IDP	Internally displaced persons
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IPS	Integrated Planning System (Albania)
JAP	Joint Assessment Paper
KM	Convertible Mark
LFS	Labour Force Survey
LSMS	Living Standards Measurement Survey
NEAP	National Employment Action Plan (Croatia)
NEPP	National Employment Promotion Plan (Croatia)
NES	National Employment Service
NGO	Non-governmental organization
NMS	New EU member states
NSDI	National Strategy for Development and Integration (Albania)
OECD	Organization for Economic Cooperation and Development

PES	Public employment service
SEA	State Employment Agency Bosnian and Herzegovina
SEE	South Eastern Europe
SME	small and medium enterprises
SWG	Sector Working Groups (Albania)
UB	unemployment benefit
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VET	Vocational Education and Training
VTC	Vocational Training Centres
WBC	Western Balkan countries
WTC	Workers' transition centres



**Abstract**

*The main objectives of this study are the assessment of activation policies in the Western Balkan countries in the light of the EU policy frameworks and the capacity and effectiveness of the Public Employment Services (PES) to implement modern labour market services. The general strategy of the research is to examine the existing activation policies against the background of labour market developments in the Western Balkan countries. In a further step the study identifies opportunities for regional cooperation among the individual countries of the region.*

**Keywords:** *labour market, activation policies, public employment services, economic crisis, regional cooperation*

**JEL classification:** *C53, E24, J21, J64, J65, J68*



*Hermine Vidovic, Vladimir Gligorov, Renate Hauptfleisch, Mario Holzner, Katja Korolkova and Monika Natter*

## **Developing efficient activation approaches and identifying elements for regional cooperation in the Western Balkans**

### **Introduction and background**

#### **Introduction**

The main objectives of this study are the assessment of activation policies in the Western Balkan countries in the light of the EU policy frameworks and the capacity and effectiveness of the Public Employment Services (PES) to implement modern labour market services. The general strategy of the research is an assessment of the existing activation policies against the background of labour market developments in the Western Balkan countries.

In an introductory chapter the report examines the main features of the labour market in the Western Balkan countries Albania, Bosnia and Herzegovina, Croatia, Montenegro, the former Yugoslav Republic of Macedonia, Serbia as well as Kosovo under UNSCR 1244/99.<sup>1</sup> In the following chapters we concentrate on (i) an analysis of activation policies developed so far and the determination of gaps compared with EU approaches and practices; (ii) an examination of the actual situation/functions of Public Employment Services; (iii) an estimation and forecasts of the possible impact of the current economic crisis on the labour markets; (iv) the identification of key critical factors related to the type of active measures, the financing, income support systems and policy choices; and (v) the identification of opportunities for regional cooperation.

The analyses of activation policies and Public Employment Services in the Western Balkan countries (Chapter 1 and Chapter 2) are primarily based on a review of existing literature available in English as well as contributions by national experts. The latter were of complementary character and enriched the literature overview with information gathered from sources available only in their national languages as well as in face-to-face interviews with relevant actors.

In order to facilitate the gathering of comparable information and data, a questionnaire (together with guidelines for completing it) was disseminated to the network of seven national experts (see Annex 4). Their findings form an important part of this report.

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<sup>1</sup> Solely for reasons of better readability in the following we use Kosovo instead of Kosovo under UNSCR 1244/99.

## **Background: Overview of labour market developments in the Western Balkans**

### **1. Structural features of Western Balkan labour markets**

In contrast to the new EU member states (NMS), the economies in the Western Balkans have been facing complex and interrelated political and economic problems. Taking into account these 'starting conditions', output recovery has been much slower in Southeast Europe than in the Central European countries. Thus, labour markets began to improve with some delay as compared to the NMS. Following high GDP growth starting in most countries of the region by the end of 1999, employment began to increase everywhere, but at different points in time. This seems to imply that increased productivity rather than the creation of new jobs has been the driving force behind growth ('jobless growth') during the first years of recovery. The entire region is characterized by extremely low employment rates and unemployment is very high by European standards. Similar to the NMS sectoral employment shifts – from agriculture and industries to the services sector are another feature of the countries' labour markets. Apart from this, the employment structure by ownership has changed significantly, from the state (socially-) owned sector towards the private sector. Today private sector employment varies between 60 per cent in Serbia and in Montenegro and close to 70 per cent in Croatia and the former Yugoslav Republic of Macedonia. Large informal sector activities are another important feature of these economies. Estimates on the size of this sector irrespective of the method used indicate a considerably larger share of the unofficial economy in SEE than in the new EU member states.

In the following we shall analyse the main features of the labour markets in the Western Balkan countries during the past couple of years and compare with selected new EU member states (Bulgaria, Romania and Slovenia) as well as EU-15. Finally we will examine the impact of the economic crisis on the labour market of these countries where possible.

Data limitations may impede the analyses of the Western Balkan countries' labour markets and the outcome might be controversial in some cases depending on the data source used.

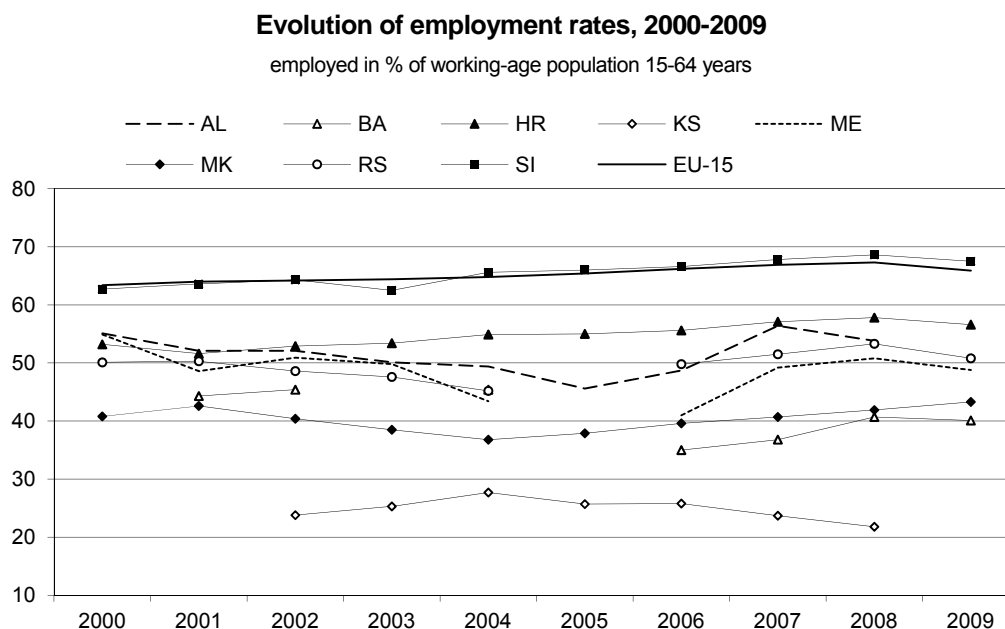
#### *Employment and activity rates*

With the only exception of Croatia, where some recovery started from 2002 onwards, activity and employment rates began to rise in most countries of the region only from 2004/2005. Activity rates are ranging between 51-53 per cent in Montenegro and Bosnia and Herzegovina and slightly over 60 per cent elsewhere. These values are somewhat lower relative to Romania and Bulgaria, but far from the results obtained for Slovenia (70 per cent). In general, employment rates are very low compared to European standards, varying between 22 per cent in Kosovo and 57 per cent in Croatia (Figure 1). In Bosnia



and Herzegovina and in the former Yugoslav Republic of Macedonia 40 per cent of the working-age population is in employment. In all other countries the employment rate hovers around 50 per cent, the only exception being Croatia. In almost all countries of the region low female participation is the factor that impinges markedly on overall employment rates.

Figure 1



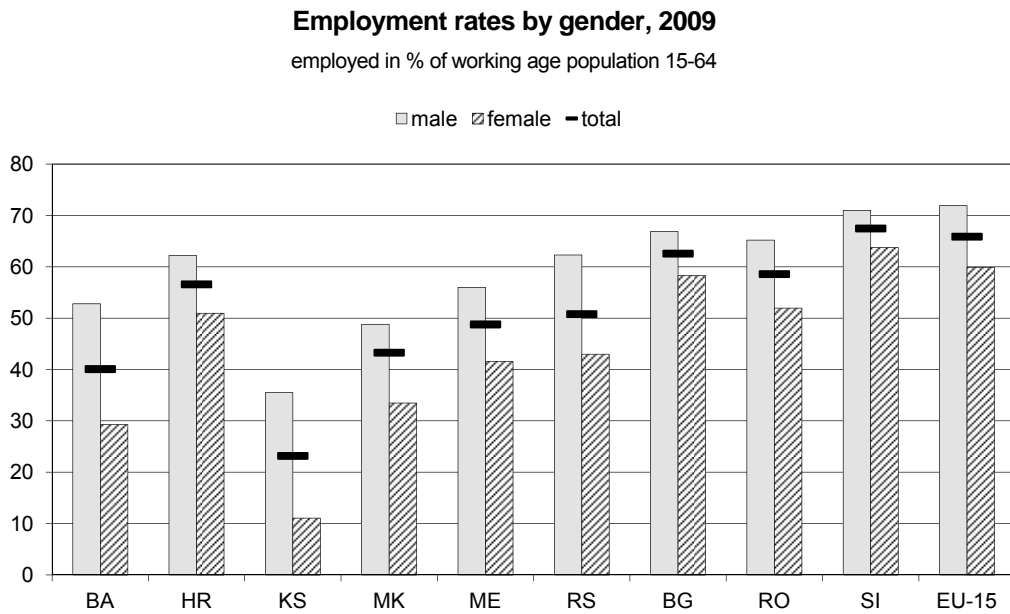
Source: National LFS. For Albania registration data.

Both male and female employment rates are lower (female much lower) than in the NMS and in the EU-15 (Figure 2 below). Croatia exhibits the highest female employment rate in the region, but still ranges at the lower end of the scale if compared to the EU countries. Kosovo is an extreme case in that respect, with a value of only 9 per cent. Declines of the employment rates during the transition period were somewhat more severe for women than for men in Montenegro and Albania, while men were hit harder than women in the former Yugoslav Republic of Macedonia. In 2009, only in Croatia the gender gap remained below the EU-15 average (12 percentage points), while in the other countries it varied between 17 pp in the former Yugoslav Republic of Macedonia and 22-25 percentage points in Bosnia Herzegovina and in Kosovo.

Notable differences between the Western Balkan countries and Romania, Bulgaria and Slovenia and the EU-15 exist also with regard to youth employment rates. Despite some improvements of the labour markets in the years prior to the crisis, the situation among the young (15-24 years) remains a matter of concern. As Figure 3 shows, employment rates of the young have changed only marginally over recent years. Croatia has the highest youth employment rate, which is comparable to those in Bulgaria and Romania (at 26 per cent),

but is still very low relative to Slovenia or the EU-15 (35-38 per cent). At the other end of the spectrum, apart from the extreme of Kosovo where only 8 per cent of the young people are in employment all other countries report an employment rate below 20 per cent. In general, employment rates of young men are higher than for women, with the gap being in all countries (but Montenegro) much higher than in the EU-15; in Kosovo it was close to Romania and Slovenia.

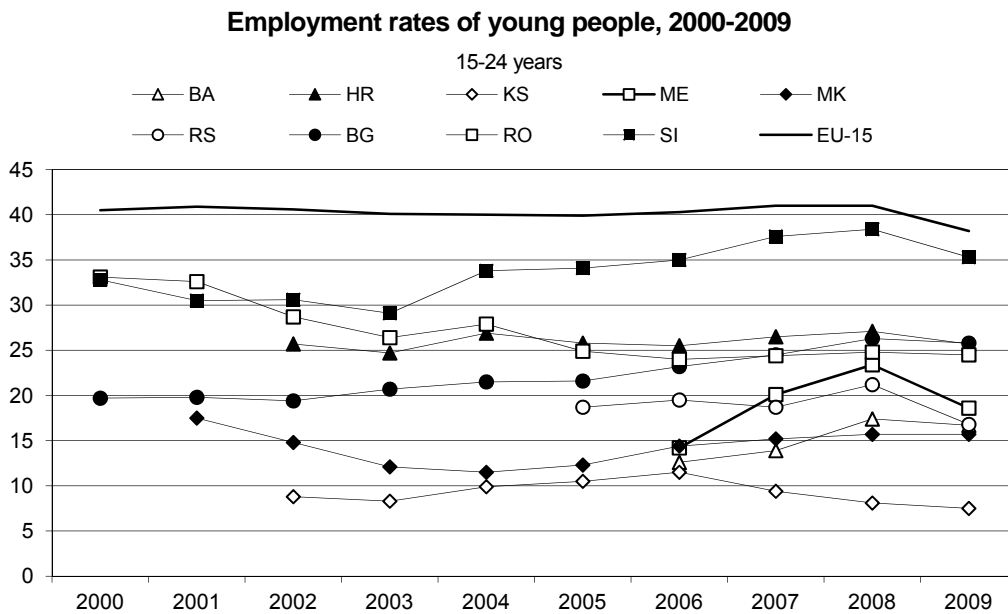
Figure 2



Note: RS data refer to 2007.

Source: wiw incorporating national statistics.

Figure 3



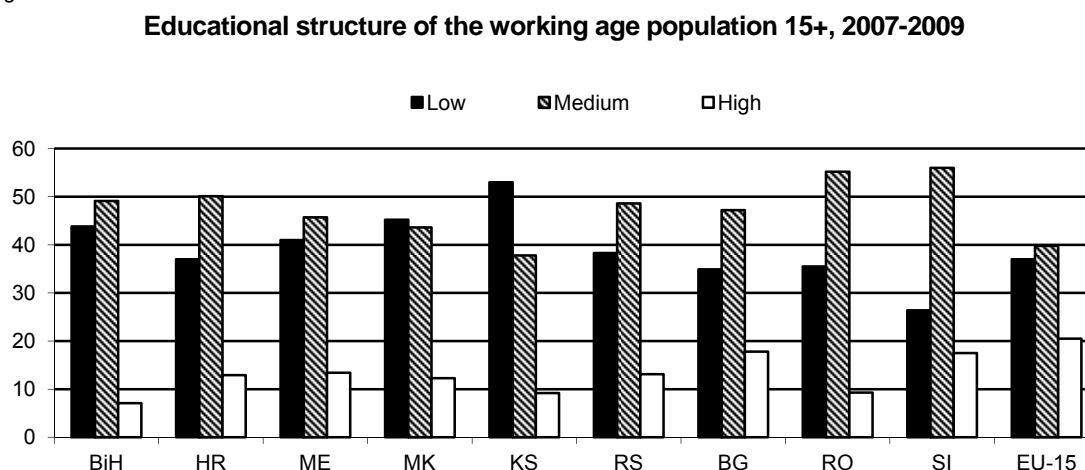
Source: Eurostat. National LFS.

### Supply of and demand for skills

In the following we examine the developments on the supply and the demand side regarding the skill structure of the working-age population (15 year and over) of the Western Balkan countries compared with Bulgaria, Romania and Slovenia. We also set these developments in relation to those in the EU-15. As illustrated in Figures 4 to 6, there are significant differences with respect to both supply- and demand-side features between the Western Balkans and the three new EU member states, reflecting different inherited structures of education and different stages of structural adjustment processes relative to these economies.

As regards the educational attainment levels of the working-age population, all Western Balkan countries except Croatia have a significantly higher share of low-educated than either the three peer countries or the EU-15 (Figure 4). Close to 40 per cent belong to this group, in Bosnia and Herzegovina and in the former Yugoslav Republic of Macedonia almost half of the working-age population, as compared to around 35 per cent in the EU-15 and in Slovenia, Bulgaria and Romania. On the other hand, the shares of the highly educated are in some cases (Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia) much lower than either in the EU-15 or in Bulgaria and Slovenia. Romania has a similar share of highly educated as the former Yugoslav Republic of Macedonia. The Western Balkan countries have a lower representation of the medium-educated compared to the peer countries (only Croatia is similar) but a much higher share as compared to the EU-15.

Figure 4



Source: CPESSEC, Eurostat and own calculations based on national LFS.

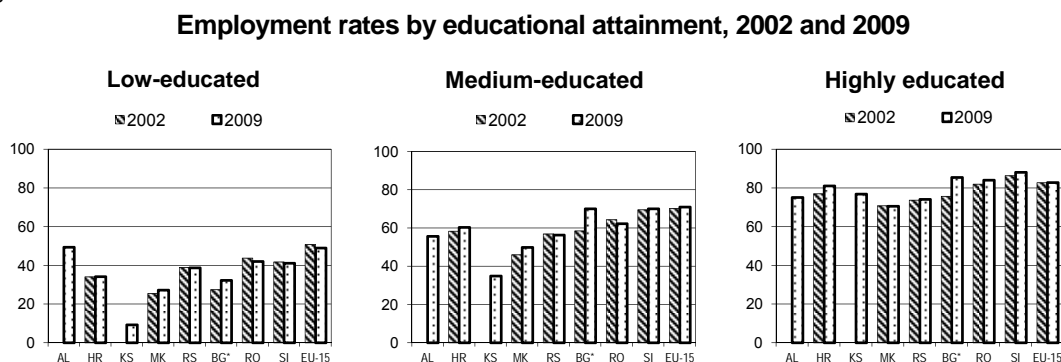
Experience from other transition countries shows that particularly the low-skilled were heavily affected by employment losses during transition, while the high-skilled reported employment gains from the very beginning. Available data for the Western Balkans are

patchy, thus comparable time series are not existent for the whole region. However, based on the information available one may conclude that these countries follow a similar pattern as the NMS.

There is a clear link between educational attainment and the employment rate. Figure 5 shows employment rates referring to low-, medium- and high-skilled in the Western Balkan countries. Accordingly employment rates in Croatia are very similar to those in the EU-15 and Romania regarding the highly educated (above 80 per cent are employed in that group of educational attainment), but they are much lower than in Slovenia or in Bulgaria. In Kosovo, the rate is below the 80 per cent mark, but higher than in the former Yugoslav Republic of Macedonia and Serbia. Employment rates of the medium-educated are lower than in the three selected new EU countries and the EU-15, while there is a big difference with respect to the low educated, which show apart from the extreme of Kosovo (9%) also a very low level for the former Yugoslav Republic of Macedonia (slightly over 20%) – particularly if compared to Slovenia (around 40 per cent).

Labour force survey results for Albania<sup>2</sup> indicate that employment rates are significantly higher for those with tertiary education than for those with lower levels of education. It is interesting to note that the employment rate for the low educated (49%) is much higher than in any other country of the region, but compares well with EU-15. There is a larger proportion of tertiary educated in the public sector.

Figure 5



Note: Kosovo 2008, Serbia 2004 and 2008; the former Yugoslav Republic of Macedonia 2002 refers to 2006.

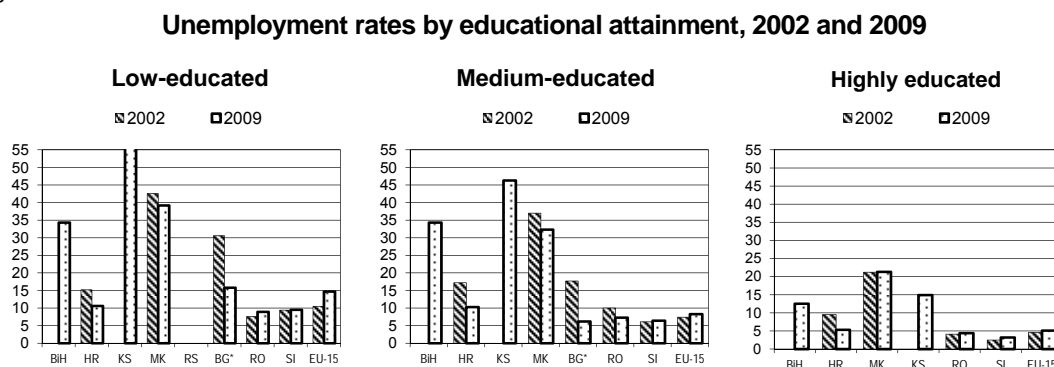
Source: Eurostat. Own calculations based on national LFS.

As illustrated in Figure 6, the highly unfavourable labour market position of the low-educated in the Western Balkans is also borne out by the very high unemployment rates (65 per cent in Kosovo, over 30 per cent in Bosnia and Herzegovina and in the former Yugoslav Republic of Macedonia while the unemployment rates in Slovenia and Romania are below 10 per cent (Bulgaria: 16 per cent). The relatively low unemployment rate in Romania of that

<sup>2</sup> Albania introduced the LFS only in 2007.

group reflects the still high agricultural employment. For the other two groups, the highly and medium-educated, the unemployment rates are again very high for Kosovo, Bosnia and Herzegovina and for the former Yugoslav Republic of Macedonia as compared to the three peer countries and the EU-15, indicating a rather tight labour market for this group of the labour force. The unemployment rate for the highly educated in Croatia is higher than in the EU-15 and the three comparator countries, while it is again much above that level in Bosnia and Herzegovina and in Kosovo.

Figure 6



Note: The former Yugoslav Republic of Macedonia 2002 refers to 2006

Source: Eurostat, national LFS.

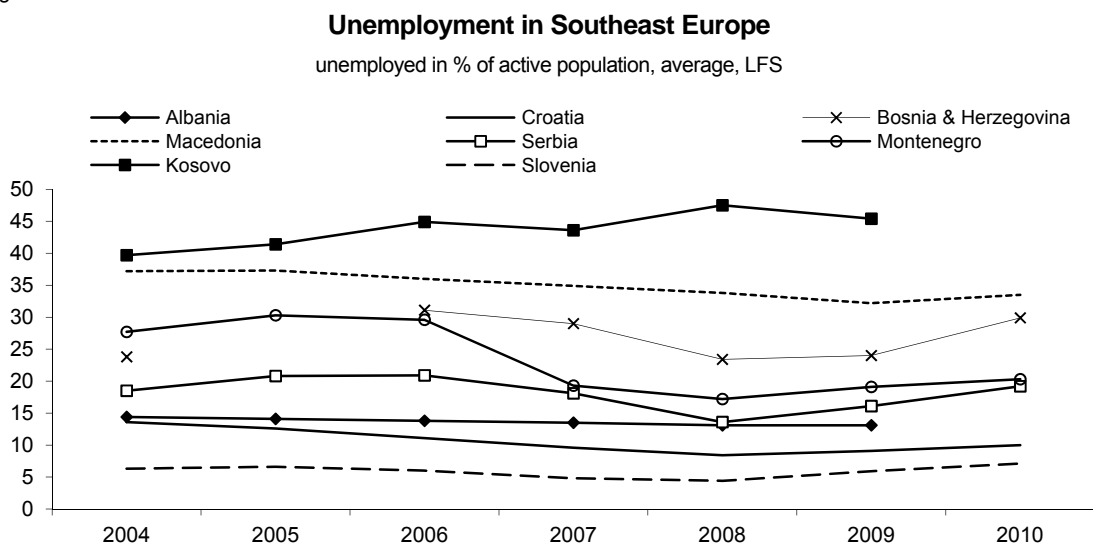
### Unemployment

Unemployment has been over proportionately high in all Western Balkan countries, which is partly due to already high levels of unemployment inherited from the past. Apart from the extremes of Kosovo and the former Yugoslav Republic of Macedonia, where the LFS unemployment rate stands at 45 and 32 per cent respectively (Figure 7), the incidence of unemployment is highest in Bosnia and Herzegovina (24 per cent).<sup>3</sup> Both in Serbia and in Montenegro large-scale lay-offs and consequently the rise of unemployment started only after the implementation of economic reforms at the beginning of the new millennium, with some signs of improvement in the two years prior to 2009. In Croatia unemployment fell steadily from 2001 onwards and stood at 9.6 per cent in 2007, but started to rise again in the course of the economic crisis. In 2009 it was similar to the EU-15 average and (much) lower than in a number of new EU member countries, e.g. the Baltic States or Slovakia. In Montenegro unemployment fell by 10 percentage points in 2007 to 19 per cent compared to a year earlier, which was mainly the result of methodological changes.<sup>4</sup>

<sup>3</sup> All of these countries had entered the transition period already with a considerable level of unemployment in 1990: Kosovo: 40.8%, Macedonia: 23%, Montenegro: 22.9%, Bosnia and Herzegovina: 21.2% and Serbia (including Voivodina): 16.7%.

<sup>4</sup> In 2007 the LFS was – for the first time - conducted on the basis of a questionnaire which was prepared and harmonized with the requirements of Eurostat through the assistance provided by the CARDS Project 'Labour Market Reform and Workforce Development'.

Figure 7



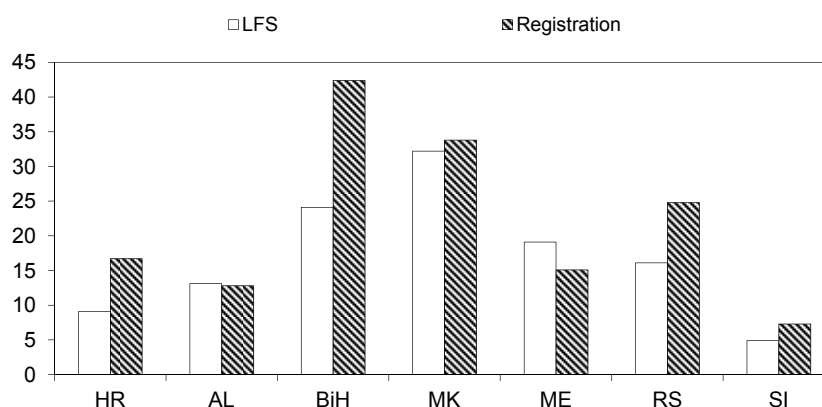
Source: LFS of the respective countries. Albania: up to 2006 registration data.

Unemployment measured by registration is almost everywhere, with the exception of Albania and Montenegro (much) higher than figures obtained from the LFS (Figure 8). The widest gaps occurred in Bosnia and Herzegovina and in Serbia, where registered unemployment is by 14 percentage points and 9 pp higher than the LFS rate. In Croatia the difference has constantly been about 5-6 percentage points (but widened in the course of the crisis), while in Serbia the gap has been narrowing steadily over the past years. These discrepancies in unemployment rates may be explained by the fact that a large number of registered unemployed is de facto self-employed in agriculture or works in the informal

Figure 8

### Unemployment rate by LFS and registration data, 2009

% of labour force



Note: Data for the former Yugoslav Republic of Macedonia refer to 2008.

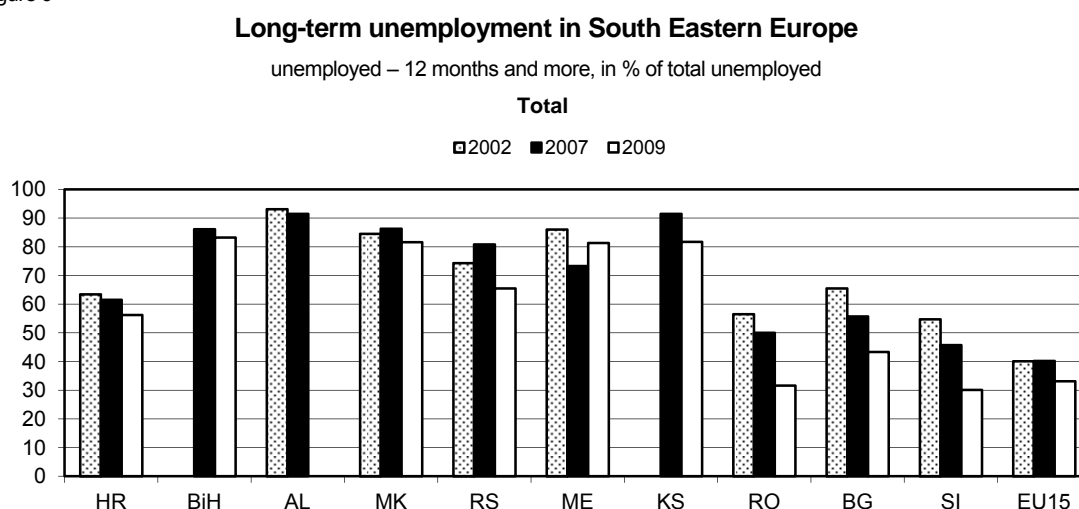
Source: wiiw Database incorporating national statistics.

economy. Many of them are often not actively seeking a job but they do register because of health insurance (the former Yugoslav Republic of Macedonia) or in order to get access to some other social benefits (such as in Bosnia and Herzegovina and in Croatia). During the past few years in most countries attempts were undertaken to de-couple registration from health insurance. E.g. the reduction in the number of registered unemployed in Serbia is mainly a consequence of changes in the health insurance system in 2007; since then an unemployed person is provided health insurance only if it is confirmed that he or she is 'really' unemployed – person with a terminated labour contract (more details on that are given in Chapter 1). In Albania registered unemployment fell from about 23 per cent in 2003 to some 13 per cent in 2007, but it was not accompanied by new job creation.

### *Long-term unemployment*

High and persistent long-term unemployment has become a salient feature of the labour markets of the region; those affected are running the risk of permanent exclusion and finally exiting from the labour market. The problem of long-term unemployment is much more severe in the Western Balkans than in the other transition countries and the proportion of those affected is by far higher. The most outstanding value is reported for Albania, exceeding 90 per cent, and the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Kosovo, around 80 per cent of total unemployed, while the share is 'lowest' in Croatia, with still almost 55 per cent long-term unemployed (Figure 9). Serbia witnessed the strongest decline of long-term unemployed (by 15 percentage points), which is very likely the consequence of the clearing up of the unemployment registers. In general, these high shares of long-term unemployment can be assumed not to reveal the actual situation in the respective countries, due to the large flows between the informal sector, employment and unemployment. A large proportion of people being long-term unemployed in the region are working in households or in the informal sector. Long-term

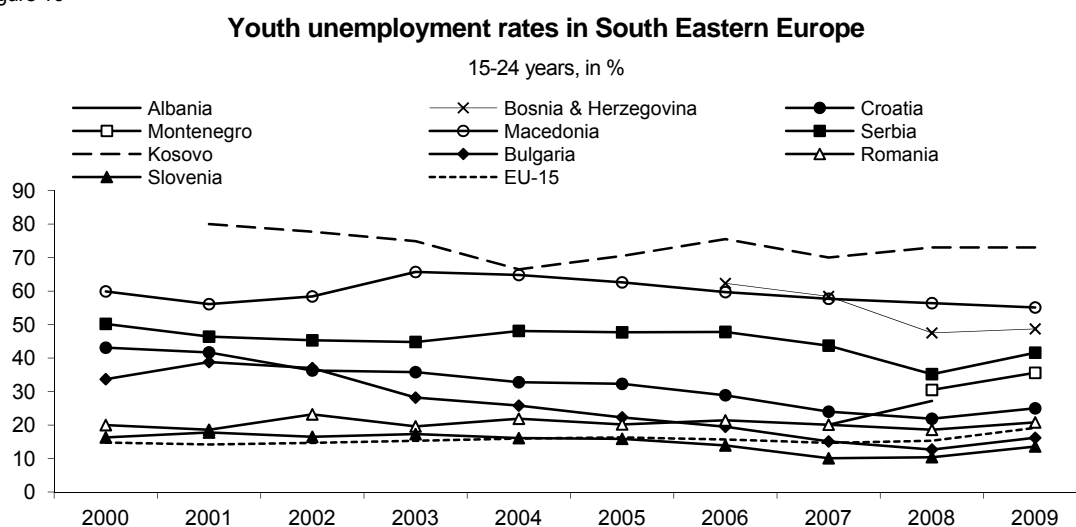
Figure 9



Source: Eurostat. wiiv Database incorporating national LFS, Albania registration data.

unemployment is high among laid-off workers and young first-time job seekers; in addition, vulnerable groups such as refugees, displaced persons and war veterans are heavily affected. In most cases women are more affected by long-term unemployment than men. Unemployment hits disproportionately young people. In most countries of the region the unemployment rate among people younger than 25 years is twice as high as the total unemployment rate. Croatia, however, has made substantial progress in reducing youth unemployment up to the beginning of the economic crisis. The high rates of 73 and 56 per cent in Kosovo and the former Yugoslav Republic of Macedonia, but also in the other countries, indicate a quite critical situation of young people on the Western Balkan countries' labour markets (Figure 10). Young people lack professional experience, their options are either to emigrate or enter the informal economy (poor working terms).

Figure 10



Note: Albania: registration data.

Source: wiiw Database incorporating national LFS. UNECE.

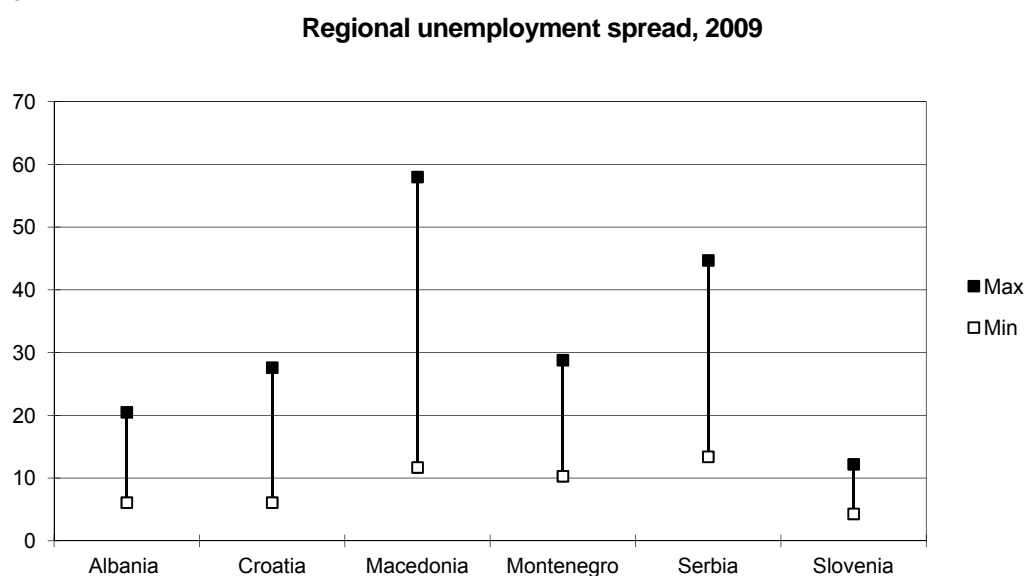
### Regional unemployment

Most transition countries have been suffering from high and growing disparities in regional unemployment. The development of these widening disparities is closely linked to the process of transition; in the socialist past regional differences tended to be small (Huber, 2006). Similar to the NMS there is a sizeable and persistent regional mismatch of unemployment in most Western Balkan countries which suggests that there are strong barriers to regional labour mobility. Figure 11 below illustrates the differences between the regions with the highest and lowest unemployment rates, indicating that they are particularly high in the former Yugoslav Republic of and in Serbia, but are still significant in most other countries of the region. However, the comparisons of these differences should be taken with caution since the number of districts varies across countries. Internal migration in Albania, which is still underway, is mostly from the northern districts of the



country directed towards the urban centres in the central and the coastal regions; Tirana and Durres are the most important destinations. More than half of the recent internal movements have been towards the capital city of Tirana. As a consequence unemployment has been declining in the disadvantaged areas and growing in other more developed and urbanized regions over the years, leading partly to a narrowing of the unemployment gap between regions.

Figure 11



Source: National statistics.

LFS data for Croatia show that more than 60 per cent of the employed work within their residing area, and additionally 28 per cent are working within the same county. When analysing the effect of lacking regional mobility on the persistence of the regional unemployment rate differences, Botric (2007) found that low mobility in a county is associated with increased unemployment. An attempt made by the Croatian Employment Service to increase mobility within the country by making the entitlement to unemployment benefit conditional on the readiness of an unemployed person to accept a job offer within a 50-kilometre distance from the place of residence did not succeed.

Despite the country's small size, unemployment has also a strong regional dimension in the former Yugoslav Republic of Macedonia. It is particularly high in rural areas and in regions affected by restructuring. But, even within urban and rural areas, there are large differences in the incidence of unemployment, with rates ranging between 27 and 59 per cent in urban areas and 24 and 67 per cent in rural areas (ILO, 2007). This seems to reflect also the ethnic diversity of the country.

In Serbia regional unemployment rates by districts vary within a ratio of more than 1:3. The highest unemployment rates are recorded for Central Serbia (excluding Belgrade) and Vojvodina (close to 21% each in April 2010), while working conditions are better in the capital city of Belgrade (but still an unemployment rate of 14%). Central Serbia is also the region with the highest incidence of long-term unemployment. Similar to the NMS, limiting factors for the geographical mobility of the population are the high costs of the living outside the place of permanent residence and the inefficient housing market, but also cultural factors (Arandarenko and Jovicic, 2007; ILO, 2007).

#### *Informal labour markets*

Due to the weakness of state structures as well as the functioning of the formal sector, large informal sectors and activities with important ties with the states have developed in the Southeast European countries. Among the employed, a significant number of people are partly or in full working in the informal markets. Informal employment has characteristics of involuntary employment, because it comes with much higher risks and lower rights than in the formal labour market. In that respect also, these countries have characteristics to be found in the developing world (Gligorov, 2003). As Arandarenko and Vukojevic (2008) state, 'formality and informality in the region do not appear as binary choice, but rather along a spectrum of statuses, from full informality through semi-formality (agriculture, self-employment, double payrolls in many small private firms), to full formality most typically in the public sector'.

The estimates of informality vary, in part depending on the methodology used. Still, most estimates point to about one third of the GDP being produced informally and in some cases, such as in Kosovo, Albania and the former Yugoslav Republic of Macedonia, that share is even higher. In terms of employment the informal sectors' share varies between 30 and 60 per cent of total employment. According to the 2007 HBS (Household Budget Survey data) about 30 per cent of the labour force in Bosnia and Herzegovina classified themselves as informally employed. The majority of informal sector employment (about 60%) is concentrated in rural areas, compared to a situation where formal sector employment is equally split between urban and rural areas (World Bank, 2009). More than two thirds of those informally employed are men while for the formal economy that ratio is somewhat lower, at 63. In addition the HBS data indicate that the educational attainment is higher for the people in the formal sector, especially for those with post-secondary and tertiary education.

In most countries of the region the incidence of informality has been growing during transition, driven by incentives for evasion of taxes and labour regulations as well as by the failure of the formal sector to provide jobs (Micevska, 2007). Croatia is probably the only country in the region where informal sector activities have been on the decline over the past years (Sosic, 2004; Crnkovic-Pozaic, 2006).

A more recent study by Krstic and Sanfey (2009) on the informal sector in Serbia – based on data obtained from the Living Standards Measurement Surveys (LSMS) from 2002 and 2007 – found that the informal sector employs a significant share of the Serbian workforce. As illustrated in Table 1 the share of informal sector employment increased significantly during the period under consideration, from 28% to 35% or even 37% if including workers with a verbal or no contract with the employer. If considering only employees excluding self employed, farmers and unpaid family workers, the portion of those working in the informal economy has doubled from 10% in 2002 to 20% in 2007. This rise is particularly striking as the economic environment has improved remarkably over this period.

Table 1

**Characteristics of employment in the formal and informal economy, 2002-2007**

in %, population between 15-64 years

	2002			2007		
	Informal	Formal	All	Informal	Formal	All
<b>All</b>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Gender</b>						
Male	59.9	55.4	56.7	59.4	55.5	56.9
Female	40.1	44.6	43.3	40.6	44.5	43.1
<b>Age categories</b>						
15-25	15.1	7.9	9.9	10.7	7.3	8.5
26-45	45.8	53.0	51.0	44.3	53.0	50.0
46-64	39.1	39.1	39.1	45.0	39.7	41.5
<b>Educational level</b>						
No school or incomplete primary	12.9	4.3	6.6	9.3	1.1	4.0
Primary school	26.5	14.9	18.1	27.4	9.9	16.0
Vocational or three-year secondary	24.2	21.0	21.9	18.7	16.3	17.1
Secondary or high school	29.5	39.0	36.4	35.8	46.5	42.8
College	4.0	8.1	7.0	3.7	9.4	7.4
University	2.9	12.6	10.0	5.1	16.8	12.7
<b>Employment type</b>						
Wage-employment	60.7	91.1	85.0	49.2	88.9	75.0
Self-employment	9.9	3.9	5.1	14.2	1.9	6.2
Farmers	26.7	4.6	9.0	25.3	9.1	14.7
Unpaid family workers	2.8	0.5	0.9	11.4	0.2	4.1
<b>Sector of economic activity</b>						
Agriculture	40.8	15.5	22.6	44.5	5.8	19.3
Industry	12.7	30.4	25.5	21.9	32.9	29.1
Services	46.6	54.1	52.0	33.6	61.3	51.6
Average monthly net main job earnings (in dinars)*	8,634.3	9,425.2	9,272.8	16,246.5	24,707.0	22,495.7
Coefficient of variation for monthly net main job earnings	1.123	0.795	0.861	0.805	0.633	0.689

Notes: \* For those who reported positive hours worked.

Source: Krstic and Sanfey (2009) based on LSMS 2002 and 2007.

A large part of the workforce in the informal sector is young workers and males with low educational attainment levels (Ognjenovic, 2008). Sanfey and Krstic (2009) found that the share of older workers, better educated persons with secondary education or more, self-employed and unpaid family workers had increased between 2002 and 2007 while the share of workers in the services sector declined. In addition it turned out that wages in the informal sector were lower than in the formal sector in both years, with the gap between the two even increasing. Similar results were obtained from a World Bank study published in 2006.

In almost all countries of the region a significant number of registered unemployed are working informally and register to receive free health insurance; estimates for the former Yugoslav Republic of Macedonia suggest that about 70 per cent of the registered unemployed fall into this category (Micevska, 2007). Low-skilled workers, most affected by the disintegration of the formal job market, have higher incentives to rely on employment in the informal sector than others. Heavy labour taxes are identified as being the most conducive to informality. As for Bosnia and Herzegovina, Bojicic-Dželilovic et al. (2004) found that tax evasion and non-payment of social insurance contributions were apart from non-registration of workers particularly evident in the small firm sector.

In general, the informal sector tends to decline with sustained growth due to the growing demand for labour, with ambiguous effect on the flexibility of the labour market.

## **2. The impact of the economic crisis on the Western Balkans labour markets**

The impact of the economic crisis on the labour market varies significantly across the Western Balkan countries. In Albania reporting a GDP growth and in the former Yugoslav Republic of the former Yugoslav Republic of the former Yugoslav Republic of Macedonia where the GDP dropped only moderately employment had even increased in 2009, while Bosnia and Herzegovina, Montenegro, Croatia and Serbia in particular suffered from substantial employment reductions. The declining trend in the respective countries has been continuing during the first half of 2010. In Serbia and Croatia additional job losses can be expected with the reduction of employees in the public sector as announced by the governments. Depending on the sources used, in 2009 between 160,000 (registration) and 240,000 (LFS) jobs got lost in the Western Balkan countries. Irrespective of the measure applied the brunt of the cutback was borne by Serbia and to a lesser extent by Croatia and Bosnia and Herzegovina. Employment drops were most pronounced in construction, manufacturing, retail trade, tourism (Croatia, Montenegro) and in Serbia also in agriculture, which could not be offset by new job creation in public administration and in the health and education sectors.

Only in Montenegro and in Serbia the strong employment decline has been (at least) partly translated into rising LFS unemployment (by 2-2.5 percentage points). In Croatia and

Bosnia and Herzegovina the rise in unemployment was negligible (around 0.7 percentage points each), which is likely due to the discouraged worker effect as people decided leaving the labour market altogether. The picture differs quite substantially if taking registration data. According to this measure the unemployment rates were higher by 3 pp in Croatia and by almost 2pp in Bosnia and Herzegovina, while both in Serbia and in Montenegro the rise in unemployment is lower by this measure. Increasing employment was reflected in declining unemployment – from very high levels, while in Albania unemployment remained stagnant despite both rising GDP and employment.

Young people are disproportionately affected by the economic crisis; e.g. between 2008 and 2009 the youth employment rate in Montenegro dropped by 4.8 percentage points, in Serbia by 4pp and in Croatia by 1.8 pp. The deterioration of employment rates for young people was accompanied by an acceleration of unemployment in this age group, up by 6.4 pp in Serbia, by 5.1 pp in Montenegro and 3.1 pp in Croatia. However, in all three countries youth unemployment rates are still lower than during most of the 2000s.

In most countries men have been more affected by rising unemployment than women, the reason behind being the huge job losses in male dominated sectors such as manufacturing and construction (which had been booming in the pre-crisis period). Despite these developments, in all countries of the region the female unemployment rate remained higher than that of men.

Similar to the new EU member states the incidence of job reduction was felt strongly by the low-skilled, a trend which was evident already in the past and which had accelerated during the crisis; but recently also the medium skilled (manufacturing) became more affected by employment reductions. By contrast employment of the high skilled continued to grow. For further country details see Box 1.

Box 1

#### **Labour market impact of the crisis**

##### **Serbia** (October 2008 to April 2009)

In Serbia employment started to decline already in October 2008, with women more affected by job losses than men over the entire period. Initially rural areas were hit hardest by employment cuts, particularly Central Serbia and to a lesser extent Vojvodina. By contrast, the capital city of Belgrade even reported employment gains. The informal sector of the labour market reacted more quickly to the crisis, with much higher rates of employment decline than in the formal sector. The branches most affected by employment cuts were construction, catering, agriculture and manufacturing, but the job losses in these sectors (excepting manufacturing) were eased by the temporary or seasonal character of these jobs. The strong employment losses in agriculture may be attributed to shrinking job opportunities in the informal sector, but also to the ageing of the population, and the concentration of agricultural land. Regarding the educational level, highly skilled persons were practically not affected by the crisis, which compares well with the situation in the new EU member

states, while the two other educational categories suffered most from layoffs. Young people, men in particular, are another group heavily affected by the crisis. Growth of unemployment went along with the employment decline starting from October 2008. It rose particularly in urban areas, not only because of the crisis but also as a consequence of the ongoing restructuring. In rural areas employment losses translated into inactivity – due to lacking job opportunities – rather than into unemployment. Over the entire period male unemployment grew faster than that of females, with the incidence of unemployment being highest for the middle-aged generations. The least and the most educated were those least affected by unemployment, while those with primary and secondary education were hit hardest. Altogether job losses during the crisis translated primarily into inactivity, of which only a small portion is accounting for retirement. The position of vulnerable groups (Roma, IDPs, single mothers, social assistance beneficiaries) has further deteriorated during the crisis due to the decreasing availability of jobs in the informal sector they are heavily relying on, but also due to loss of formal employment, low chances finding a new job and decreased wages both in the formal and in the informal economy.

*Source: Matkovic et al. (2010).*

#### **Croatia (January to September 2009)**

The employment effect of the crisis was initially modest but accelerated in the course of the crisis. The activity rate dropped as workers were exiting from the labour market altogether (discouraged worker effect), the employment rate – low by European standards – fell again after some years of recovery. Thus, the crisis has further aggravated structural labour market problems. The declining labour demand was reflected in a slowdown and finally a fall of real wage growth, which helped to cut labour costs. Working time reductions played only a limited role in combating the crisis. Similar to other countries the crisis has affected mainly the manufacturing, construction and trade sectors. As a consequence prime-aged skilled blue-collar workers were hit most. Job losses went along with rising unemployment, resulting from an inflow of laid-off workers and new labour market entrants. The rising inflow into unemployment led to a change in the structure of unemployment duration, with a rising share of short-term unemployment and at the same time declining long-term unemployment. As elsewhere, the number of vacancies dropped substantially. Concerning the regional impact of the crisis, regions dominated by those industries that were most affected by the crisis (manufacturing, trade, tourism and construction) were naturally hit hardest. Regions where unemployment was initially low were therefore affected more than those where unemployment was high; in other words, labour market conditions worsened in industrialized regions rather than in agricultural regions. Thus, as an impact of the crisis regional disparities have been narrowing. Apart from passive measures (unemployment benefits in particular) training and public works are the two main active labour market programmes that have been implemented during the crisis. Only these two programmes were expanded in 2009, while all remaining programmes were reduced in size (total enrolment in ALMPs fell by 26% in 2009 relative to 2007).

*Source: World Bank and UNDP (2010).*

# Chapter 1 Activation policies

## 1 Introduction: Activation concept

The development of 'activation policies' is a general trend in Europe. Since the early 1990s, activation has become a key element of welfare state and labour market reforms. The shift towards activation has been triggered by policy advice provided by international organizations like the OECD, as well as by the European Commission. In the 1990s the OECD launched its Jobs Strategy (revised in 2006-2007), which emphasized the role of work incentives and potential negative side effects of social benefits. The OECD was recommending inter alia that the countries increase the effectiveness of active labour market policies and improve work incentives with unemployment benefits and tax system.

By now activation has become one of the key notions of the European Employment Strategy and an important element of the European Social Model. The new strategic document of the European Commission 'Europe 2020 – A European strategy for smart, sustainable and inclusive growth'<sup>5</sup> puts forward 'inclusive growth: fostering a high-employment economy delivering social and territorial cohesion' as one of three priorities. It is emphasized that 'action under this priority will require modernizing, strengthening our employment, education and training policies and social protection systems by increasing labour participation and reducing structural unemployment'<sup>6</sup>. Thus, activation policy remains high on the agenda for the coming decade.

Activation policies are being implemented throughout the European Union and although they take different forms in each Member State, in the last years there is a clear tendency towards convergence of approaches. One of the general trends is that recently the term 'activation' has taken on a broader policy meaning (compared to the initial concept) and is used to refer to policies that are being developed and implemented to support access to employment, education and training for all those distant from the labour market and who are receiving social welfare payment including lone parents, people with disabilities, immigrants and the elderly. Creating a more inclusive labour market implies a growing concern for marginalized groups with a greater distance from the labour market, who then require specific assistance to achieve sufficient employability. Designing and implementing appropriate measures for the hard-to-place is a major challenge for activation policies – as is to find the right balance between rights and duties.

There are different approaches towards 'activation' and the interpretations of the concept vary. In the context of the current study we rely on the concept which sees 'activation' as a

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<sup>5</sup> See Communication from the Commission, COM(2010) 2020, Brussels, 3.3.2010.

<sup>6</sup> See Communication from the Commission, COM(2010) 2020, Brussels, 3.3.2010, p 16.

method – set of instruments to enhance participation in the labour market<sup>7</sup> – and therefore signify ways of raising incentives for people to enter the labour market and to regulate the behaviour of job-seekers. The core element of activation methods is the removal of options for labour market exit and unconditional benefit receipt by people of working-age.

Broadly two approaches can be distinguished when it comes to activation instruments or methods: ‘work-first’ and ‘human capital’. The former approach consists of labour force attachment schemes which compel individuals to take formal employment as soon as possible, the programmes are of low value and geared to the short term<sup>8</sup>. It implies more demand on individual behaviour in terms of mandatory job search obligations and potential sanctioning. By making availability criteria stricter and replacing out-of-work benefits with in-work-benefits that depend on being active in (low-paid) employment and by topping up low wages (‘make work pay’), low incomes become more acceptable. Subsidies paid to employers shall compensate for low productivity. In the ‘human capital’ schemes activation policies consist in the provision of complex services of high value and over the long term with a focus on the provision of training and skills development.<sup>9</sup>

Thus, the activation policies in principle rely on a combination of demanding elements and tailored assistance. Both demanding and enabling elements aim at lowering barriers towards employment, however in different ways (Table 1.1 below). The classification presented in the table below clarifies the distinctions.<sup>10</sup> But activation approaches can differ according to the relative importance of ‘demanding’ and ‘enabling’ components. The balance between the two can vary in each individual case but also in the context of national policy-making.<sup>11</sup>

The activation measures (their scope and outcomes) depend on economic cyclical fluctuations and the effectiveness of interventions reduces in the times of crisis. Researches emphasis that ‘during economic upswing, activation measures are intensified – since there are progressively more job vacancies, more counselling resources, and more programme places per client – and benefit disincentive effect decline. While during recession this mechanism goes into reverse – higher unemployment reduces the frequency of interventions in the unemployment spell; overwhelmed administrations no

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<sup>7</sup> For instance EAPN interprets ‘activation policies’ as a set of policies aiming at bringing people back to employment, either through financial incentives, or through compulsory activities (see <http://www.eapn.eu/content/view/253/lang/en/>).

<sup>8</sup> See for instance Peck J & Theodore N (2001) ‘Exporting workfare/importing welfare-to-work: exploring the politics of Third Way policy transfer’ in Political Geography 20 427-460 and Lodemel I, Trickey H (Eds), 2001 ‘An Offer You Can’t Refuse’ Workfare in International Perspective, (Policy Press, Bristol).

<sup>9</sup> See for instance Barbier J.C. 2001, ‘Welfare To Work Policies in Europe, the Current Challenges of Activation Policies’, Working document, CEE, n°11

<sup>10</sup> For more details see: Eichhorst W. and Konle-Seidl R. – ‘Contingent Convergence: A Comparative Analysis of Activation Policies’, - IZA Discussion Paper No 3905, December 2008.

<sup>11</sup> Eichhorst W. and Konle-Seidl R. ‘Contingent Convergence: A comparative analysis of activation policies’, discussion paper No. 3905, December 2008.



longer check individual eligibility for benefit; and it becomes possible to spend long periods passively on benefit<sup>12</sup>. As a result unemployment tends to increase further.

Table 1.1

**The two elements of activation**

Demanding	Enabling
<ol style="list-style-type: none"> <li>1. Duration and level of benefits <ul style="list-style-type: none"> <li>• Lowering insurance or assistance benefits</li> <li>• Reduction of maximum benefit duration</li> </ul> </li> <li>2. Stricter availability criteria and sanctioning clauses <ul style="list-style-type: none"> <li>• More restrictive definition of suitable job offers</li> <li>• Punitive sanctions for non-compliance</li> </ul> </li> <li>3. Individual activity requirements <ul style="list-style-type: none"> <li>• Integration contracts</li> <li>• Monitoring of individual job search effort</li> <li>• Mandatory participation in active labour market policy schemes</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. 'classical' ALMPs <ul style="list-style-type: none"> <li>• Job-related training schemes</li> <li>• Employment incentives</li> <li>• Start-up programmes</li> <li>• Public works programmes (direct job creation)</li> </ul> </li> <li>2. 'soft' ALMPs or PES core activity <ul style="list-style-type: none"> <li>• Job search assistance and counselling</li> </ul> </li> <li>3. Fiscal incentives/make work pay <ul style="list-style-type: none"> <li>• Earnings disregard clauses</li> <li>• Wage supplements granted in case of taking up low-pay jobs ('in-work-benefits')</li> </ul> </li> </ol>

Source: based on Eichhorst W. and Konle-Seidl R., IZA Discussion Paper No 3905, 2008.

Thus, while describing and analysing country situations in the Western Balkans we will present individual countries' activation policy toolsets with a special focus on 'demanding' and 'enabling' sides (as presented in the table above). The issue of the recent country developments triggered by the current crisis is to be addressed in the course of our analysis. Following this approach the first part of this chapter deals with 'demanding' components of activation in the Western Balkans countries (existing benefit regimes, availability and individual activity requirements), while the second part focuses on active labour market measures which play the key role when it comes to the 'enabling' side of activation.

**2. Activation: Demanding side**

**2.1 Unemployment benefit regimes in WBCs**

*2.1.1 Benefit systems: incentives versus disincentives*

Unemployment benefits and the rules regulating them are directly linked to the 'demanding' component of the activation concept. Benefits influence job-search behaviour of the unemployed. The issues related to the interaction between benefit systems and active labour market policies (the two sides of activation as presented in sub-chapter 1) are being

<sup>12</sup> Grubb D. 'Welfare to work: lessons from OECD experience' November 2009, Presentation on IES Annual Public Employment Policy Conference.

in the focus of researchers' attention since the last decade. The activation concept is based on the assumption that the proper design of benefit systems and active labour market policies creates incentives for beneficiaries to search for jobs and accept employment. The 'incentive and obligation' or so called 'carrot and stick' approach is by now widely incorporated in the policies tackling unemployment.

It is known that under certain conditions the benefit systems might produce disincentives and create a non-motivating environment for the recipients to move into employment. The European countries were undertaking reforms of benefit systems aimed at restricting and eliminating such accumulated disincentives. Those reforms usually encompassed a reduction in the level<sup>13</sup> and duration of the benefits, as well as the introduction of stronger and more effective control on the eligibility criteria. Many countries took steps to strengthen eligibility criteria, while direct reduction of the unemployment benefit level and duration were limited and mainly undertaken by the countries with generous benefit systems.

Within Europe the Nordic (Denmark) and the Continental countries (France, and Germany) have generous benefits, while the Anglo-Saxon countries (United Kingdom and Ireland) provide flat rate payments with relatively short duration. As for the Southern European countries (Greece, Italy, and Spain) they have welfare states that were developed recently and provide limited unemployment insurance, although Spain resembles more the Continental countries.

In OECD countries – where large share of the unemployed receive benefits – PES provide targeted counselling services to this group of clients combining them with effective control over job-search behaviour including credible threat of benefit sanctioning against non-compliance with the rules. The purpose is not to punish the unemployed, but to ensure the functioning of the labour market as well as the cooperation of the unemployed. Sanctions typically involve suspension of benefit payments (for a certain period) or outright disqualification in case the unemployed client does not comply with a request to come to the employment office, to provide information on job search or to follow-up on a suggested vacancy, etc.

Some similar trends can be observed in the New Member States (NMS) and transition countries, although the background situation and circumstances are different from the EU 15. Income support for people searching for work did not exist in the socialist period due to an absence of open unemployment in planned economies thus support systems had to be introduced in the 1990s. As policy makers became aware of the disincentive effects of a too generous unemployment benefit system they started introducing changes and recently most NMS have reformed and radically changed their systems with an eye on

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<sup>13</sup> Although some NMS like Estonia, had to increase the benefit level to meet international standards.

both reducing budgetary pressures as well as increasing the search effectiveness of the unemployed. But it is worth bearing in mind that the circumstances enabling successful working of unemployment insurance systems are less favourable in the transition countries mainly due to the weak development of the labour market and insufficient administrative capacity. Thus the unemployment insurance systems have to be tailored to the particular context of transition economies.

A detailed comparative description of the WBCs' unemployment insurance systems is presented in the section below. There are some common features, with direct impact on the potential and possible application of activation policies (demanding side).

#### *Low coverage*

One of those features is that **the share of clients receiving the benefits is low in a number of WBCs**, with the exception of Croatia and Montenegro (Table 1.2). Moreover, in some cases the benefits are paid with delay, in Serbia for example there is often a 4 months delay.

Table 1.2

#### **Recipients of unemployment benefits, 2008/2009**

	<b>AL*</b>	<b>BiH</b>	<b>HR</b>	<b>MK</b>	<b>ME</b>	<b>RS</b>
Total number of registered unemployed	<b>142,871</b>	<b>516,686</b>	<b>240,455</b>	<b>341,295</b>	<b>28,378</b>	<b>727,621</b>
Number of clients receiving the benefit	11,137	8,418	57,258	24,648	9,798	72,718
Percentage of unemployed receiving the benefit	7.8	1.6	23.8	7.2	34.5	9.9

\*Data for Albania concerns 2007; source: Albanian Institute of Statistics (<http://www.instat.gov.al/>).

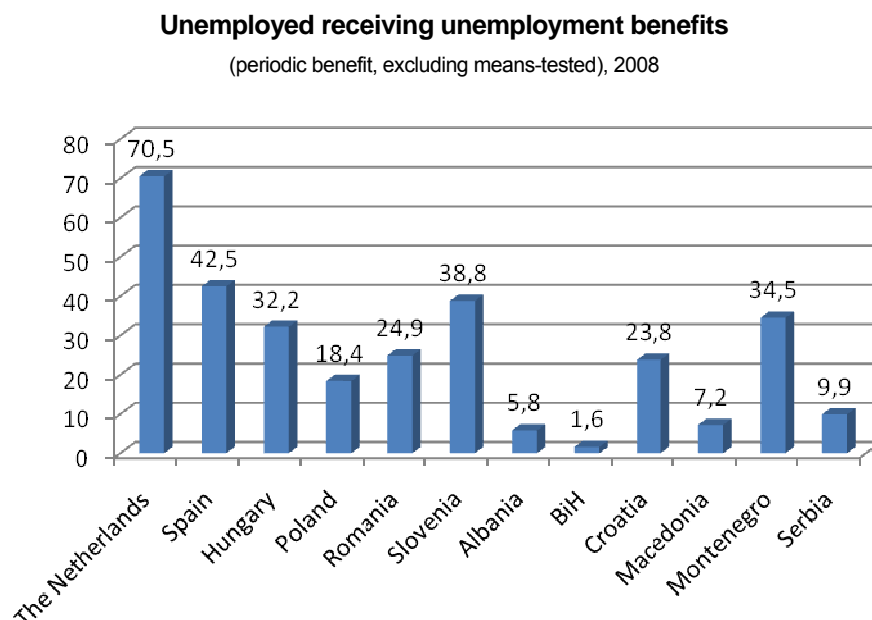
Source: CPESSEC Statistical Bulletin N 2, July 2009 and national expert contributions, 2008/2009 data

It is obvious that PES have much less scope for putting pressure on clients who do not receive benefits and thus PES 'demanding' requests de facto concern only a small group of clients. Furthermore, PES controlling and 'demanding' functions can hardly play its role when the benefits are delayed and in this sense the mutual obligations are not fulfilled by the PES side. The number of clients receiving benefits was recently growing in some countries, like in Bosnia and Herzegovina (BiH), but the coverage still remains very low. So far only in Croatia and Montenegro coverage is comparable to some NMS like Romania, Hungary and Slovenia (and even higher than for instance in Poland – Figure 1.1 below).

The low proportion of clients receiving unemployment benefits can be explained by certain rules related to the eligibility criteria. For instance, the absence of any benefits foreseen for first-job seekers (new entrants to the labour market) in a situation when first-job seekers

form a very large (in some cases dominant) group of the unemployment register<sup>14</sup>, is one of the key factors (e.g. in Serbia, the former Yugoslav Republic of Macedonia). Another aspect is related to a large proportion of long-term unemployed, who – according to the existing rules – have already exhausted their benefit rights. The presence of a large group of unemployed with only informal work experience also contributes to that.

Figure 1.1



*Note:* In Kosovo there are currently no unemployment benefits.

*Source:* ILO data, [http://www.ilo.org/dyn/illossi/ssimain.home?p\\_lang=en](http://www.ilo.org/dyn/illossi/ssimain.home?p_lang=en), CPESSEC Statistical Bulletin N 2, July 2009 and national experts contributions.

On the other hand, the low share of benefit recipients is to a certain extent related to the fact that the register in many WBCs became inflated by clients for whom the registration served mainly as a justification for getting access to health-care and other social benefits. The register is overloaded with clients who are not intending to look for a job, but are engaged in the grey economy or are inactive with other sources of income. However, it is not easy to identify such cases since the enforcement of legislation regarding active job search is very weak. In BiH roughly two thirds of all registered unemployed receive free health insurance for the whole duration of unemployment registration, in the former Yugoslav Republic of Macedonia 67% of the unemployed use free health insurance through PES<sup>15</sup>, which also provides an incentive to stay in the informal economy and avoid paying social insurance contributions. In Montenegro registered unemployed persons are

<sup>14</sup> Although in BiH, if the registration at PES happens within 90 days after completion of education, the first-time job seeker is entitled for unemployment benefit.

<sup>15</sup> In December 2008, these category of 'unemployed' constituted 20% of the total register (for more details: Euro-Balkan Institute (2009), 'Labour Market in the former Yugoslav Republic of Macedonia', A study for the European Commission, Employment, Social Affairs and Equal Opportunities DG, October 2009, p.115).

entitled to health insurance (which is automatically provided to all unemployed persons at the moment of their registration) and many of those employed in the informal sector have registered with PES for the purpose of receiving health insurance.

This also created an unsustainable health insurance situation where only one fourth of those who get health insurance coverage actually pay contributions<sup>16</sup>. The fact that the data on unemployed registered by PES and LFS unemployment data differ significantly, indirectly confirms the described situation. Recently WBCs started taking steps aimed at tackling this problem and change the regulations that allows for 'free riding' via employment offices.

Croatia was one of the first to reform the system of social health insurance. Since significant changes have been introduced in 1997, Croatia has universal health insurance coverage, thus being independent from employment relationship. While before 1997 those who lost their job had to register with Croatian PES in order to get health insurance coverage. Although health insurance stopped being a reason to register as unemployed, up until now there remain incentives to do so in order to get a number of other types of smaller benefits<sup>17</sup>. In the former Yugoslav Republic of Macedonia recently the changes to the health insurance provisions were supported with a legal reform – the Government made a decision to transfer the responsibility for the administration of health insurance from PES to the Health Insurance Fund (from January 2009). Although the details of the new system are not clearly defined, creating difficulties in the practical implementation<sup>18</sup>. Earlier in 2007 as a first step PES of the former Yugoslav Republic of Macedonia started to collect and publish data on registered unemployed who sign a written statement that they register only for getting free health insurance, but are rather inactive. This turned out to be very helpful for distinguishing between job seekers and non-job seekers in order not to waste limited staff and financial resources on this category. In Serbia a new Law on Healthcare was adopted in 2007 which extended medical insurance to additional groups, namely students. As a result the number of registered unemployed declined for first-job seekers, who form a large group on the register. Recently, as reported by ETF, the Employment Services of BiH have embarked upon a number of actions aimed at an 'administrative clear up' of the unemployment people on the register resulting in a decrease in the number of registered unemployed.

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<sup>16</sup> Council of Europe and ILO (2009) 'Employment Policy Review: Bosnia and Herzegovina', p. 52.

<sup>17</sup> Franicevic, V. 'Decent Work Country Report – Croatia', International Labour Office - Regional Office for Europe and Central Asia, ILO 2008.

<sup>18</sup> Euro-Balkan Institute (2009), 'Labour Market in the former Yugoslav Republic of Macedonia', A study for the European Commission, Employment, Social Affairs and Equal Opportunities DG, October 2009, p. 115.

### *Low benefit level*

Another essential feature that significantly restricts, if not totally undermines, the potential impact of PES 'demanding' efforts is **the extremely low level of benefits rates** (with some exceptions, as in BiH the system is considered to be rather generous<sup>19</sup>). The threat of sanctioning or de-registration entailing the loss of the benefit is effective in terms of stimulating job search activities and compliance when the benefit presents a high value and real income support for clients. To the contrary very low benefit levels, which cannot play a role of bridging support towards a new employment period, can hardly be used as a motivation lever.

Moreover the benefits' level is so low that experts are questioning their effectiveness as poverty alleviation tool<sup>20</sup>. Analysts point to poor targeting of resources such that those most in need often fall short on the social benefits system. For example, it is estimated that in Montenegro only 55% of total social benefits spending reaches the poorest 20% of the population while the remaining 45% goes to people who cannot be considered as poor.<sup>21</sup> Both the low level and limited coverage of unemployment benefit mean that it is inadequate to promote the efficient allocation of resources in the labour market, which has the effect of increasing poverty risk and encouraging work in the informal economy.

The research confirms an unfavourable trend – the development gap between the Balkan countries and the EU has been widening considerably over the past years. Between 1989 and 2008 the relative average income of Balkan countries (GDP per capita) has dropped from 40% to 30% of the EU level. The GDP per capita inequalities between the Union and Balkan countries increased at a 2% average annual rate during the period 1989-2008. Thus the development gap relative to the EU remains significant and has grown deeper in the last 20 years.<sup>22</sup>

In the Western Balkan region the level of poverty is known to be high and many people live close to poverty. Analyses published in Poverty Reduction Strategy Papers revealed the extent of poverty in Albania, the former Yugoslav Republic of Macedonia, Serbia, Montenegro, and Bosnia-Herzegovina<sup>23</sup>.

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<sup>19</sup> As concluded by IMF experts in FBiH 'the system of unemployment benefits, though covering only 1.5 percent of registered unemployed does not provide sufficient incentives for quick re-entry in the workforce....At present, the unemployment benefit is slightly higher than the net minimum wage, which combined with the generous maximum length of the payout period discourages active job search' (See 'Bosnia and Herzegovina:Selected Issues' IMF Country Report No 10/347, November 2010)

<sup>20</sup> Stubbs, P. 'Social Protection and Social Inclusion in the Western Balkans. A Synthesis Report', European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2009, p.43.

<sup>21</sup> Gribben A. 'Human Resource Development Country Analysis Montenegro, ETF Working Paper, 2008, p. 12.

<sup>22</sup> Convergence and Inequality of Income: the case of Western Balkan countries, by Jalal El and Rabija Somun-Kapetanovic. The European Journal of Comparative Economics. Vol 6, N 2, p.223.

<sup>23</sup> Poverty Reduction Papers, WB/IMF, <http://www.imf.org/external/np/prsp/prsp.asp>

Poverty surveys, almost without exception, confirm that the poverty risk of unemployed persons is among the highest, being 60% to 70% higher than that of the average population<sup>24</sup> (Table 1.3).

Table 1.3

**Population living in poverty in percentage of total population**

	AL	BIH	HR	KS	MK	ME	SR	SI
% of population in poverty (2008)*	12,4	19,5	11,0	37,0	21,7	7,0	6,5	12,9
Minimum poverty line \$2.15 per day (2005)**	18	6		33	4	9	9	
Poverty line \$4.30 per day (2005)***	71	35	17		24	42	42	

\*Source: Franjo Štiblar, *The Impact of the Global Crisis on Montenegro and the Western Balkans*, p. 190, [http://www.cb-cg.org/eng/index.php?mn1=publications&mn2=our\\_books](http://www.cb-cg.org/eng/index.php?mn1=publications&mn2=our_books).

\*\* Source: World Bank, *Growth, Poverty and Inequality: Eastern Europe and the Former Soviet Union*, Washington, 2005.

\*\*\* Source: W. Bartlett and M. Xhumari, 'Social Security Policy and Pension Reforms in the Western Balkans', *European Journal of Social Security*, 9(4), 2007, p. 11.

The unemployment benefits are calculated as certain percentage (about 40-60 per cent) of recent wages earned in the previous employment (in the last 3-6 months of employment). The exceptions are Croatia and Montenegro where currently the benefits are linked to minimum wages. The majority of jobseekers step into unemployment from salaries which are considerably less than the national average wages, thus the absolute amounts of benefits calculated according to the existing rules are very low. In Montenegro where a relatively high percentage of unemployed receives the benefits, the size of the benefit is extremely low amounting only to EUR 36 per month. In Kosovo, where unemployment benefits as such do not exist, the government aid (families with unemployed members are also entitled to this aid) totals EUR 45 to 75 per month – much less than what a family needs to make a normal living in the country<sup>25</sup>.

It is rather striking that three of the seven countries (Montenegro, the former Yugoslav Republic of the former Yugoslav Republic of Macedonia and Kosovo) do not have a statutory minimum wage. For Macedonia the minimum figure is based on the lowest wage specified in a sectoral agreement (textiles EUR 75; health professions EUR 218), see Table 1.4 below. The threshold for the payment of social security contributions is EUR 166, while in reality the lowest income is likely to be significantly lower than this threshold. Montenegro likewise has no statutory minimum wage and the minimum figure of EUR 55 represents the threshold for the payment of social security contributions; compared to an average income in the country of EUR 600 this is a very low figure. In Kosovo the minimum

<sup>24</sup> Gordana Matkovic, *Overview of Poverty and Social Exclusion in the Western Balkans*, p.23 [http://www.komunikacija.org.rs/komunikacija/casopisi/stanov/XLIV\\_1/01/download\\_gb](http://www.komunikacija.org.rs/komunikacija/casopisi/stanov/XLIV_1/01/download_gb)

<sup>25</sup> UNDP [http://www.setimes.com/cocoon/setimes/xhtml/en\\_GB/features/setimes/articles/2009/05/18/reportage-01](http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/articles/2009/05/18/reportage-01)

wage level foreseen by the tripartite collective agreement signed in 2004 has so far not been implemented, in the private sector the lowest wages start at some EUR 200 per month. It was also not until 2008 that Croatia first adopted a national minimum wage in law, following years of internal debate.

Table 1.4

**Minimum wages in Western Balkans and some EU countries (2008)**

	AL	BiH	HR	KS*	MK*	ME*	SR	BG	RO	SI	SK	PT	FR
Minimum wage (€)	138	159 142	381	120	75-218	55	159	112	141	539	242	497	1280
Min wage as % of average wage	41	31	38	45	30	?	39	42	29	44	47	42	48
Unemployment benefit if linked to minimum wage			(60-100% of min wage)			36 (65% of min wage)							

\* Kosovo, the former Yugoslav Republic of Macedonia and Montenegro do not have a statutory minimum wage. Figures for those countries are based either on collective agreements in certain sectors or the minimum amount on the basis of which an employer is required to pay social security contributions at the nationally applicable rate.

Source: Heribert Kohl, 'Social dialogue, workers' rights and freedom of association in the Western Balkans', 2/2009; Eurostat, Data in focus. Population and social conditions, 29/2009.

Under these circumstances it seems more reasonable to consider raising the benefit level in the direction of international standards (as it was done in some NMS, like Estonia), then to introduce new restrictions and cuts. It is also true that in times of economic downturn the 'equity' and 'poverty prevention' goals of activation efforts come to front, making the authorities to a certain extent refocus their attention away from the 'efficiency' goal. Some countries have already taken steps towards increasing the unemployment benefit level. Albania has increased the benefit from 5,240 ALL (approx. 39 Euros) in 2007, 5,980 ALL in 2008 to 6,340 ALL (approx. 47 Euros) in 2009.

Croatia recently was making attempts in the same direction, but they were interrupted by economic crisis. Just before the crisis Croatia introduced a change by linking the benefit level to the gross wage of the client prior to unemployment (instead of average wage as it was before). But it turned out to be too challenging when the crisis significantly increased the inflow of unemployed tightening at the same time the budget. After only half a year of the introduction of new increased benefits the Government had to step back and reduce the benefit again to the minimum wage. Although this 'crisis' measure (connecting benefit to minimum wage) was relatively short-lived and new proposal planned to be adopted in October 2010 foresees the return to average wage as the starting point for benefit calculation (70% of 3-month-average wage for the first 90 days of unemployment and 35% afterwards). At the same time to alleviate the increased risks of poverty and exclusion the



Croatian Economic Recovery Programme foresees prolonging the period of unemployment benefits for the individuals in risk of long-term unemployment<sup>26</sup>.

But even before the crisis the significant erosion of contributory insurance-based welfare systems was restricting the possibilities of full scale functioning of the benefit system<sup>27</sup>. The erosion was caused by the conditions of high unemployment combined with low activity rates and low rates of contributions as a result of the grey economy, as well as the fact that many employers avoid paying social insurance contributions (or pay them with delay), depriving governments of resources for social programmes. Since health, pensions, and unemployment benefits programmes are mostly financed by the taxes levied on registered employment, low jobs growth in the formal sector means that the authorities have to rely on a narrow tax base to raise revenues for those programmes. The consequences are relatively high tax/ contribution rates which, in turn, create further disincentives for formal sector employment. Besides, the demographic situation is such that more and more people are going to rely on an ever-shrinking base of those who pay social insurance contributions.

#### *Special types of more generous support*

If the unemployment benefits are generally low and do not provide much room for 'activation' by means of benefit reduction, there are particular groups of clients who benefit from special and much more generous arrangements. It appears that in those cases there is more space for applying 'demanding' instruments.

Some countries like BiH, being somewhat an exception, have a more generous system of unemployment benefit rules. But what is even more essential is a very specific approach towards certain target groups, for example **unemployed demobilized soldiers** (war veterans) which likely can be explained by political reasons. Till spring 2010 a quarter of all registered unemployed in FBiH appeared to be demobilized soldiers. According to the legislation adopted in October 2006 prior to the general elections (which was really unique as no other Western Balkan country introduced similar regulations), this group received very favourable conditions and generous benefits (so called 'demobilized soldiers' allowance' which is a right-based benefit dependent on formal unemployment status and is particular for FBiH). Introduction of the 'demobilized soldiers' allowance' has produced quick increase of registrations with PES and exponential growth of benefits with spending

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<sup>26</sup> The unemployed person (registered for longer than 12 months could apply for increased duration for the period up to 120 days. Furthermore it is also proposed that the persons, who have worked for 32 years and have less than 5 years before the legal retirement age, can be eligible to receive the unemployment benefit.

<sup>27</sup> As pointed out by some researchers: Paul Stubbs (2009), Building capacity to promote social integration and social inclusion in the Western Balkans, Paper produced for Expert Group Meeting on Practical strategies to promote social integration: Lessons learned from existing policies and practices, Accra Ghana, 17-19 November 2009, p . 2, <http://www.un.org/esa/socdev/egms/docs/2009/Ghana/Stubbs.pdf>

rising almost 3-fold between 2006 and 2008<sup>28</sup>. It proved to become a very big burden on employment agencies which had to spend most of their financial funds on this group of users. The following figures speak for themselves: not so long ago, a quarter of all registered unemployed in FBiH appeared to be demobilized soldiers. There are 46,000 users of this right in FBiH and another 6,000 in the Republika Srpska (RS) who have been receiving 150 KM (77 EURO) per months in the past 3 years (about half of the minimum wage), while the number of regular unemployed clients receiving the benefits recently was only 5,900 persons out of 370,000 registered unemployed in FBiH. The Law of 2006, which was a temporary one (36 months), expired in April 2010 relieving the employment agency from burdensome administering and making payments to this category. In view of activation approach the Law turned out to be counter-productive. It stimulated unemployment and not active job search. Most of the targeted group are working in the grey economy, but they were receiving monthly benefit and free health insurance and were given a priority for employment and self-employment in any of the active labour market programmes. As it is concluded by the World Bank experts, 'there is some evidence that untargeted benefit schemes in BiH also produce disincentives and distortions in the labour markets'<sup>29</sup>.

In Montenegro there is a special rather generous approach towards *unemployed* workers who are *closer to retirement age*. This group of unemployed is entitled for a special type of benefit, which was introduced in 2009 in addition to the 'regular' unemployment benefit – so-called 'minimum pension for unemployed'. This benefit amounts to a minimum pension as determined by the pension insurance regulations: in 2010 it is EUR 92.52. Eligible to receive this benefit are: (a) unemployed people of 60 years of age (for men) and of 55 years of age (for women) who have at least 10 years of working experience (insurance contributions) and (b) unemployed of at least 50 years of age who have 30 years or more of working experience. The new Law on Employment and Rights from Unemployment Insurance (which came into force in April 2010 and generally tightened benefit rules), did not change the approach towards these groups. Those who have gained the right for 'minimum pension benefit' in accordance with the old Law will continue to receive this benefit under the same conditions (duration and amount of benefit).

**Redundant workers** constitute another special group which receives rather generous payments (via employers or via the state) and activation questions fully apply to this numerous group. Privatization and economic restructuring led to an increase in the number of redundant workers, which is a crucial problem and the current economic crisis contributes to it. In 2008 there were 21,000 redundant workers in Serbia and 11,000 in the

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<sup>28</sup> Social Transfers in Bosnia and Herzegovina: Moving towards a more Sustainable and better targeted safety net. Policy Note. World Bank. April 2009, p. 11.  
<http://siteresources.worldbank.org/INTBOSNIAHERZ/Resources/PolicyNoteEngFinal.pdf>

<sup>29</sup> Social Transfers in Bosnia and Herzegovina: Moving towards a more Sustainable and better targeted safety net. Policy Note. World Bank. April 2009, p. 22

former Yugoslav Republic of Macedonia and other countries – such as Croatia, Montenegro, BiH – are also confronted with similar developments. The majority of redundant workers are over 50 years old; many of them do not possess modern skills and are hard to place. There are social packages for redundant and redeployed workers and they have rights to severance payment. Countries such as the former Yugoslav Republic of Macedonia and Serbia are known to have a generous approach – almost universal availability of rather high severance payment packages. In Serbia, if an employer has no funds for severance payment, there is a possibility of using the funds earmarked by the government for this purpose (Transitional and Solidarity funds). According to experts' estimates several years ago the amounts spent on severance payments were almost equal to spending on ordinary unemployment benefits, while the number of 'redundant' clients was less than a quarter of the number of people receiving unemployment benefits. In the former Yugoslav Republic of Macedonia the share of workers of special redundancy categories in the total number of persons receiving some financial assistance from the Employment Agency is around 1/3 and some persons receive higher assistance than the average salary in the country.

The rules concerning this type of support vary from country to country. Usually the amount of severance payment is linked to average wage and to the number of years spent in employment. For example in Serbia severance payment cannot be lower than the sum of 1/3 of average wage for every full year of employment for the first 10 years of service, and 1/4 of average wage for every further year of employment for the period upon 10 years of service. In Montenegro according to the Labour Law, the severance payment amounts to 6 average wages, however, in practice, according to the company or sector level collective agreements, severance payments range from 12 average wages in the public sector to 24 average wages in the public and privatized companies. In Croatia the worker is entitled to severance payment if he or she has been employed by the same employer for at least 2 years, with the amount depending on the exact tenure. The Law, however, stipulates that the amount cannot be lower than one third of the last 3-month average wage for each year the worker has worked for the same employer. In Albania workers are entitled to payment of their full monthly salary from their employer for a period of 12 to 16 months, depending on the seniority of the service.

In BiH there are no special packages for redeployed workers because they are receiving regular monthly payments from their employers and as such they have taken burden of the employment agencies. Severance payment is being provided by employers when possible and depends on workers' average income. Otherwise, there is no severance payment supplied by employment agencies. However, in case the worker becomes unemployed and is missing only up to 3 years to retirement, the employment agencies take care of their contributions and provide them with certain benefits on monthly basis (FBiH – minimum 312 KM, RS – minimum 50% of average monthly income).

Severance payment, as a passive labour market measure, especially when implemented extensively, raises questions of how the financial support is used. Is it helping the recipients to move back to employment, start some business or improve their skills or is it used for other mainly consumption purposes? The majority of the first waves of redundant workers (more than 90% in Serbia) were choosing the single monetary compensation option. In this case they were not required to register with the PES and were not about to use PES services to which they are entitled: information services; mediation services; vocational counselling and guidance; and access to training programmes. To address this situation a number of projects started being launched in the region. With the support from international organizations they were aiming to turn what is perceived to be a typical passive measure into an active one by complementing severance payments with active labour market measures. The 'Severance to Job' project implemented in Serbia in 2007-2009 with joint efforts of the Ministry of Economy and Regional Development, PES, UNDP and the Austrian Development Agency (ADA) was of such nature. The basic idea of the Project was to facilitate, through a range of services and incentives, on an entirely voluntary basis, the use of severance payments by redundant workers to subsidize their re-employment rather than for consumption, as most often has been the case. The project worked with all 29 branches of the PES trying to stimulate the use of severance payments to create new employment opportunities, especially among workers who face difficulties in accessing new employment.

#### *Lack of vacancies*

There is one more very serious restriction to full-scale application of the activation concept (in particular its demanding side). The intense monitoring of unemployed individuals' job search by PES staff and the application of sanctions in the case of non compliance to rules can be effective and bring positive results only when there are **enough vacancies and the economy creates new jobs**. Researchers conclude that 'it is no accident, therefore, that intensified monitoring of job search and the imposition of sanctions work well in the mature EU-15 countries, while these tools seem rather ineffective in the NMS where job creation rates have been lower compared to the former group of countries'<sup>30</sup>. A 2005 evaluation study<sup>31</sup> shows this ineffectiveness clearly for the Hungarian labour market.

#### *2.1.2 Main characteristics of the benefit systems*

Despite the facts that the fraction of the jobless who receive unemployment benefits and that the average size of the benefit is very small, passive programmes comprise a large share of the total expenditures of PES. The main sources of financing unemployment

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<sup>30</sup> Lehmann H. 'Macedonia's Accession to the EU and the Labour Market: What can be learned from the New Member States', IZA Policy Paper N 14, 2010, p. 46.

<sup>31</sup> Micklewright J. and Nagy G. 'Job Search Monitoring and Unemployment Duration in Hungary: Evidence from a Randomized Control Trial', 2005.

benefits are revenues from insurance contributions and transfers from the government budget.

Rather often, as it is clearly the case in Serbia, the payment of insurance contributions is delayed by employers and the revenues collected are insufficient (as already mentioned above the effect of erosion of contributory insurance-based welfare systems).

Table 1.5 below shows public expenditures on passive measures in the WBCs as a percentage of GDP.

Table 1.5

**Public expenditure on passive measures in % of GDP**

	2006	2007	2008	2009	2010
Albania	0.12	0.09	0.08	na	n.a.
Bosnia and Herzegovina	0.29	0.29	0.25	0.32	n.a.
the former Yugoslav Republic of Macedonia	1.70	1.26	1.04	0.82	0.50
Croatia	0.29	0.24	0.24	0.37	0.35
Montenegro	0.25	0.23	0.19	0.31	0.44
Serbia	0.90	0.95	0.99	0.98	1.16
EU 27	1.20	1.02	n.a.	n.a.	n.a.
Romania	0.28	0.23	0.17	n.a.	n.a.
Bulgaria	0.18	0.15	0.16	n.a.	n.a.

Source: National experts. Eurostat.

The majority of programmes cover employed workers and are insurance based (citizenship or residency required). **Coverage** by age: usually 16–59 for men and 16– 54 for women. In Croatia university or training graduates are also eligible. Domestic and casual workers are usually excluded. Workers who quit jobs voluntarily or are dismissed for reasons related to their performance are excluded and cannot receive the benefit (e.g. in Serbia, Croatia, Montenegro).

Initial **income replacement rates** are usually about 40-60 per cent of recent average wages. Thus, in comparison to EU Member States, WBCs mostly belong to the group with low NET replacement rates (0-50%). However, they are comparable to some NMS like Poland as well as other countries of the region like Romania and Bulgaria, whereas Slovenia on the other hand belongs to the group with high replacement rates (above 70% – Table 1.6 below). In Serbia for the first 3 months the benefit equals 60% of beneficiary's average wage in the last six months, thereafter – 50% and 10% increase if enrolled in vocational training; in FBiH the rate is 40% of the average net wage in the last 3 months; in the Republika Srpska the rate is 35% of the average net wage for those who have less than 10 years of employment and 40% of the net wage for those with more than 10 years of employment; in Montenegro, until March 2010, the rate was 65% of the minimum wage

(in real terms the benefit amounted to EUR 35.75), but has been reduced by the new Law to 40% of the minimum wage, which has to be determined in the new Collective agreement (in the meantime the old level of minimum wage of EUR 55 per month is still in use); in Croatia just before the crisis a new law was adopted which de facto increased the level of benefits, relating them to the gross wage of the client in the last three months of his/her employment (79% for the first 90 days, 50% up to 1 year and further – 40%). The economic crisis resulted in a switch to minimum wage as reference point for the benefit. However, this measure was relatively short-lived and a new proposal planned to be adopted in October 2010 foresees the return to average wage as the starting point for benefit calculation (70% of the 3-month-average wage for the first 90 days of unemployment and 35% thereafter).

Table 1.6

**NET Replacement rates of UB (in percentage)**

	<b>2009</b>
Albania	35
BiH	30-40
the former Yugoslav Republic of Macedonia	40-50
Croatia	55
Montenegro	48
Serbia	50
<b>EU countries*:</b>	
Poland	46
Bulgaria	50-55
Romania	42-44
Slovenia	73-86

Source: For WBCs: ETF report (2007) Labour markets in Western Balkans and national experts' contributions. For EU countries OECD data 2008, [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)

\* Figures for EU countries refer to one-earner married couple with no children respectively one-earner married couple with two children, average wage earners.

**Benefits are limited by floors** (monthly minimum standard of living in Albania, 20% of average net wage in BiH; 80% of minimum wage in Serbia) and ceilings (100% of average net wage in BiH; 160% of minimum wage in Serbia). In Croatia the ceiling was significantly reduced in August 2009 as instead of average wage, the minimum wage started being used, but recently announced changes scheduled for October 2010 bring the ceiling to 35% of average annual wage.

Some countries provide **flat-rate benefits** instead of (or in addition to) **earnings-related benefits**. In Albania the flat rate is calculated according to the number and age of family members and is payable for up to 12 months. Earnings-related or flat-rate benefits can be graduated over time. Albania provides supplements for dependants.

The administration of unemployment benefits is a heavy burden and requires from PES staff a lot of efforts (checking rather complex eligibility criteria etc.). Under these circumstances some experts recommend to drop earnings related unemployment benefits and introduce flat rate benefits for a fixed number of months (for example for 1 year). Such a reform could lighten the administrative burden and would increase the search efforts of those among the unemployed with previously relatively high earnings.

Maximum **entitlement duration** is 3-24 months. (Albania – 12 months, within BiH it is 24 months in FBiH and 12 months for Republika Srpska). In the majority of countries the entitlement duration varies depending on the length of employment, contribution period, and/or age. In Serbia it varies from 3 months for persons with less than 5 years of working experience and insurance contributions payment, to 12 months for persons with 25 years and over of paid contributions and in some exceptional cases workers within two years prior to pension might receive the benefit for 2 years; in the former Yugoslav Republic of Macedonia – between 1 month and 1 year (1 year for those who have previously worked for 25 years); in FBiH it varies from 3 months – for those employed between 8 months and 5 years – to 24 months – for those employed over 35 years; in Montenegro the rules have recently (2010) been changed towards shortening the benefit period and tightening the conditions. According to the new regulations the duration varies from 3 to 12 months, for 6 months for example one needs 10-15 years of continuous contributions; for 12 months – over 25 years one needs to have at least 15 years of continuous contributions, while over 30 years of continuous contributions leads to entitlement until a new job is found or obtaining some other right (retirement); young people with disabilities receive benefit until employed, in Croatia between 3 months and 15 months, with an exception for women with 30 years of working experience and men with 35 years who can claim the benefit until they are reemployed. University and training graduates have shorter entitlement periods.

Some countries provide extensions for people near retirement age. In Albania the maximum duration for receiving unemployment benefits is reduced to 10 months for individuals who benefit for the second time and apply within a period of 24 months after the first application and further to 8 months for individuals benefiting for the third time and apply within 24 months after completion of the second time benefit. Table 1.7 below, summarizes the maximum duration of unemployment benefits in WBCs which is comparable to many EU Member States (such as Bulgaria, Cyprus, Estonia, Finland, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Romania, Slovak Republic, Sweden, UK).

Recently some WBCs changed the rules, making requirements stricter. For example the new Law (2009) in Serbia modified the links between entitlement duration and required length of employment – now it is necessary to work more years in order to receive the benefit for a certain period.

Table 1.7

**Maximum duration of Unemployment benefits (months)**

	Albania	Bosnia and Herzegovina	the former Yugoslav Republic of Macedonia	Croatia	Montenegro	Serbia
2005/06	13	6-12 (24)	3-19	13	12	24
2009	12	6-12 (24)	12	15	12	12 (24)

Source: ETF report (2007) Labour markets in Western Balkans and national experts' contributions.

Minimum **past employment requirements** range from 3 to 12 months (Croatia: 9 months within the last 24 months; Serbia – 12 months or 18 months with interruptions, Albania – 12 months; Montenegro – 9 months continuous contributions or 12 months in the last 18 months). Registration at employment offices is required by all countries. In most countries workers are ineligible if they are dismissed because of misconduct.

The situation in Kosovo differs from other WBCs as the current legislation does not cover unemployment benefits, and the social safety net is based only on a basic pension system and social assistance scheme. But the social assistance scheme includes support to unemployed. Social assistance is payable to two categories of low income families. One category concerns the families with members who are able to work, all of whom are unemployed. The conditions for this category are: (i) the unemployed family members are seeking a job; (ii) the family has at least one child below 5 years of age; (iii) the family receives no other public assistance; (iv) the family does not own more than half a hectare of land; (v) the family does not own a vehicle, including agricultural machinery.

The amount of monthly social assistance depends on the number of family members (EUR 35 for a family with one member, and EUR 50 for a family with two members, which is increased by EUR 5 for each additional family member up to the maximum of EUR 75 for a family with seven or more members).

Families can receive social assistance for six consecutive months under the condition that the job seekers look for employment uninterrupted. If the conditions of the family do not change after six months, they can apply again to continue social assistance. Social assistance is suspended if the income of the beneficiary family exceeds the minimum subsistence level.

## **2.2 Availability and individual activity requirements**

The OECD has devised a range of indicators to assess what countries do in terms of activation, such as job search requirements and explicit job search reporting procedures,



verification of employment status, frequency and length of intensive interviews in the unemployment spell, and compulsory participation in activation programmes<sup>32</sup>.

Programmes in WBCs typically have certain **requirements for recipients**<sup>33</sup>, which among other things also are meant to reduce the incentives for registering as unemployed by economically inactive or informally employed individuals. For example, they require the recipient to be able, available, and willing to work or follow training, as well as searching for work. Recipients are disqualified if they refuse to undergo training. Benefits are reduced, postponed, or terminated if the recipient refuses a suitable job offer or does not comply with labour market requirements (job search, participation in public works or training) or files a fraud claim.

At the same time it should be stressed that stricter availability criteria and individual activity requirements represent activation policy components, which are developed rather weakly in the majority of WBCs. As it follows from the literature rather often PES do not properly implement the regulation concerning activity of the unemployed and their availability for a job and respective sanctions. Other reasons limiting the application of this instrument are discussed below.

There is a tendency among WBCs to take steps towards tightening the rules regarding the unemployment benefit conditions. Taking into account the limited resources, the employment services have to work only with those unemployed who are really looking for jobs. Thus, more attention is paid to job search monitoring and control. Clients usually are informed about the rules – obligations and rights, during their first visit to PES. It appears that more intensive and strict control is applied to those clients with whom PES signed individual contracts/plans – usually difficult to place clients (in Serbia these clients have to report to PES every 30 days and are quicker referred to training or public works, which they are obliged to follow). At the same time there are examples (BiH, Albania) when the intension of authorities to intensify the monitoring of job search activities is in contradiction with insufficient staff capacity (PES staff is overloaded with already existing obligations and there are only piloted attempts to intensify the monitoring), while the formally introduced principle of mandatory participation in active labour market programmes is hard or impossible to implement when lack of financial resources does not allow to launch active labour market programmes. Although in some countries, like Albania, participation in ALMPs is mandatory and especially strictly required from benefit recipients.

In the former Yugoslav Republic of Macedonia the emphasis of activation is not on the 'demanding' side and strict control, although formally the regulation specifies a number of

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<sup>32</sup> See OECD, Employment Outlook, Paris, 2006 and Employment Outlook, Paris, 2007.

<sup>33</sup> However it follows from the literature that rather often PES do not properly implement the regulation concerning activity of unemployed and their availability for a job and respective sanctions.

obligations to be fulfilled by unemployed clients for the receipt of the benefit, which are similar to the ones mentioned above. The recent advice of international organizations in this respect is to define clearly (i) 'suitable work', (ii) occupational protection (i.e. allowing unemployed people to refuse a job offer that involves a change of occupation), (iii) requirements for independent job search, (iv) frequency of contacts with the PES and (v) compulsory participation in programmes after a certain period of unemployment has elapsed.<sup>34</sup> Stricter rules for registration and participation in programmes can be used as a work test and as a means of helping the unemployed maintain contact with the labour market. Those steps could potentially help to avoid more severe penalties like benefit sanctions and exclusion from the register in a situation characterized by a large number of registered unemployed who are de facto inactive or informally employed.

In Montenegro already some years ago more demanding requirements have been introduced, including regular reporting, attending consultation with vocational advisors, etc. Strict application of those rules helped employment offices to half the number of registered unemployed persons from over 80,000 in 2001 to less than 40,000 in 2006.<sup>35</sup> The newly adopted Law on Employment and Exercising Rights from the Unemployment Insurance (March 2010) is imposing stricter availability criteria and sanctioning clauses, and enables PES to require a more pro-active approach on the side of the unemployed in job search (compared to the system existing before). Instead of quarterly interviews and reporting, registered unemployed are required to report once a month to their career adviser, who discusses with them possibilities for employment and participation in active labour market measures. This is rather close to the practice in OECD countries, where required reporting is between every two weeks and monthly. In those countries it is rather common to require the proof of a certain number of job search actions per months (in the UK three job search actions per 2 weeks, in NL – 4 per month), while in WBCs these detailed obligations are not yet specified. Currently any beneficiary who refuses a job offer corresponding to his/her qualifications is removed from the unemployment register for six months and loses unemployment benefit.

In Albania individuals eligible to receive unemployment benefit are required to (i) have contributed to the social insurance fund for at least 12 months; (ii) have been registered as unemployed job seekers at the employment office; (iii) have submitted a written request and filled in the corresponding file within 60 days from the day of having the right for the benefit; (iv) report to the respective employment office once a month or any time being called from the office;- (v) accept a job whenever the employment office does offer a paid and suitable job;- (vi) accept to qualify or re-qualify when this opportunity is being offered by the employment

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<sup>34</sup> See: World Bank 'Active Labor Market Programs in FYR Macedonia', Policy Note, 2008, <http://siteresources.worldbank.org/MACEDONIAEXTN/Resources/MK.ALMP.doc> p. 19.

<sup>35</sup> Krsmanović A., Walewski M. 'Labor market institutions in Montenegro – A barrier to employment?', Institute for Strategic Studies and Prognoses Podgorica, 2006, p.23, [http://www.isspm.org/WP\\_Labor%20Market%20Institutions.pdf](http://www.isspm.org/WP_Labor%20Market%20Institutions.pdf)

offices. Unemployed who refuse to participate in training courses are deleted from the unemployment register and are refused unemployment compensation and PES services.<sup>36</sup>

In a similar way in the former Yugoslav Republic of Macedonia if the person refuses PES invitation to take part in programmes for education and vocation as training or rejects job interviews and/or an employment contract facilitated by the PES, he/she will be erased from the register of unemployed for a period of 1 year (this measure was introduced in 1997, until 2004 the suspension period was 2 years). Further, the benefit can be stopped if the unemployed is working illegally, rejects the participation in public works, does not respond to the PES invitations for job interviews, trainings, etc. without particular reason.

In BiH the eligibility and availability criteria for benefits have recently become somewhat stricter but there is still a lot of room for improvement. In order to qualify for the receipt of the benefit, the client has to meet certain requirements: be involved in active job search, report regularly to the employment bureau, accept a proposed job offer and participate in ALMPs, which are formally mandatory. The payment of unemployment insurance is discontinued if the beneficiary: does not report regularly to the employment bureau or refuses to report upon call; refuses a job offer that is compatible with the level of qualification (although in practice such a refusal does not necessarily lead to the loss of the benefit); or is found to be working in the informal economy.<sup>37</sup> But actual capacities to monitor the clients are very limited.

In Croatia according to the law<sup>38</sup> the right to financial compensation shall be terminated to an unemployed person if he or she:

- Refuses to take part in an educational programme organized and paid by the Employment Service for persons of his or her qualification level aimed at increasing employability, or if he or she quits or fails to finish such an educational programme without any justified reason;
- Fails to report to the Employment Service without a justified reason for two continuous months and does not inform the Employment Service on the justified reasons for non-reporting;
- Fails to meet the active job seeking and work availability conditions.

In its Economic Recovery Programme (April 2010) Croatia recently announced the intention to limit unemployment benefit duration in order to motivate unemployed for more active job

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<sup>36</sup> Human Resource Development. Country Analysis. Albania. ETF Working Paper. 2008. [http://www.etf.europa.eu/pub/mgmt.nsf/\(getAttachment\)/960ED141DD517FB6C12574B900569761/\\$File/NOTE7J5LH4.pdf](http://www.etf.europa.eu/pub/mgmt.nsf/(getAttachment)/960ED141DD517FB6C12574B900569761/$File/NOTE7J5LH4.pdf) p. 8.

<sup>37</sup> Council of Europe and ILO (2009) 'Employment Policy Review: Bosnia and Herzegovina', p. 50.

<sup>38</sup> Act of job placement and unemployment insurance, 2002 <http://www.mingorp.hr/UserDocsImages/zakoniugovorieng/ces-hzz/CES-%20ActJobPlacement.pdf>

search, and after a certain period keeping the unemployment benefit at 50% combining it with the obligation to achieve additional qualifications or participate in training programmes.

In Serbia according to the new Law of 2009 on Employment and Unemployment Insurance the availability criteria are rather strict. If an unemployed person breaks some of the following criteria he or she will be cleaned from the PES register with no rights to further assistance. The availability criteria are: (i) not responding to the PES at least once within 6 months; (ii) show no proof on active job search efforts –their individual diaries of job search efforts (iii) refuse job brokerage; (iv) no response to an employer who asked the PES for job matching; (v) refuse to conclude an individual plan of employment or to not follow its provisions; (vi) refuse or end participation in ALMPs (participation in ALMPs is mandatory); (vii) no response to the PES call; (viii) have an informal employment.

Although the WBCs in line with European practice have introduced eligibility requirements, monitoring of job search behaviour and certain sanctioning patterns, there are still gaps both in specifying the exact meaning of certain requirements, as well as in the implementation of announced principles. For example, the requirements for independent job search, as well as the frequency of required contacts of unemployed with PES (often they are referred to as ‘regular’) have to be clearly defined. The principle of getting some sort of sanction for ‘rejecting PES offers without particular reason’ has to be clarified with an explanation of which reasons are accepted as justifying the rejection and which are considered to be ‘not serious’ ones. International experts are emphasizing that the legislation has to be more stringent in relation to defining ‘suitable work’ (when there is a threat of losing the benefit if a ‘suitable work’ offer is refused by the client). The interpretation might change and currently some researchers suggest that ‘... in recessions, the view that ‘the unemployed are innocent victims’ needs to be balanced with a view that ‘in these tough times the unemployed should take whatever jobs are available’.<sup>39</sup> Further, the participation in ALMPs cannot in fact be made mandatory if the funding is not guaranteed (what is very often the case and aggravated with ‘interrupted’ budget procedure). The principle of mandatory participation in ALMPs also has to be clarified by specifying after which period of unsuccessful job search it becomes obligatory to participate in those programmes<sup>40</sup> (in DK it is for example after 9 months, in the UK for young job seekers it is after 6 months). As for the sanctions, international experts also conclude that the cuts in unemployment benefits should be set at a moderate level: there should be no blanket denial of benefit entitlement. In the Western countries sanctioning with suspension from benefit for noncompliance with the rules usually is valid for a certain number of weeks, after which the client recovers his/her rights.

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<sup>39</sup> Grubb D. ‘Welfare to work: lessons from OECD experience’ November 2009, Presentation on IES Annual Public Employment Policy Conference.

<sup>40</sup> See for example: Active labour market programs in FYR Macedonia. A policy note. World Bank, 2008.

### 3 Activation: Enabling side

#### 3.1 Active labour market programmes: role and effects

Generally, ALMPs represent a set of instruments helping to tackle unemployment problems, bringing the clients of public employment services back to employment or closer to the labour market. ALMPs also have a social objective – to improve inclusion and participation. But it is recognized in the literature that ‘active labour market policies (ALMP) can only at the margin affect the overall unemployment rate of an economy. Sound macroeconomic policies and a legal environment conducive to entrepreneurship are far more important for the birth of new firms and for sustained job creation, while labour market institutions that keep labour costs in check and that provide the right incentives for job search predominantly drive labour demand and labour supply’<sup>41</sup>. If we take into account the fact that the budget for ALMPs in WBCs is several times less (in some cases more than 10 times) than the budget in most EU countries and that the share of registered unemployed benefiting from ALMPs is very small, it becomes obvious that ALMPs cannot fundamentally change the general labour outcomes (even if the funds are used in an optimal way and the programmes have maximum impact).

Thus, trying to judge the effectiveness of ALMPs by looking at unemployment rate dynamics would not be appropriate as there is a combination of numerous and much more powerful factors in the background. Job creation is crucial for reducing unemployment and is the result of the complex interplay of macroeconomic conditions, the business climate, education and social policy. The ALMPs rather aim at reducing labour market imperfections, as well as at alleviating inequalities and social exclusion by means of better access to the labour market.

ALMPs may have different **functions**<sup>42</sup>, including:

- contribute to a certain extent to direct and indirect employment creation;
- help poverty prevention;
- improve participants’ employability and increase their re-employment prospects;
- help to achieve greater equity by supporting more disadvantaged labour market groups;
- create more income and employability security in the times of socio-economic and labour market changes.

Depending on the objectives that are set for the use of ALMPs by particular countries, one or several of the above mentioned functions can play a more crucial role. Then the success and effectiveness of the measure should be assessed in terms of whether it

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<sup>41</sup> Lehmann H. ‘Macedonia’s Accession to the EU and the Labour Market: What Can be Learned from the New Member States’, IZA Policy Paper N 14. February 2010, p. 41. <http://ftp.iza.org/pp14.pdf>

<sup>42</sup> As presented by the authors of ‘Active Labour Market Policies Around the World - Coping with the consequences of globalization’, Peter Auer, Umit Efendioglu, Janine Leschke, ILO 2005, p. 15-17.

contributed (and to what extent) to the achievement of the selected objectives via related functions. For example, in case the function of improving the employability of job seekers is given a priority then the success of the measure directly depends on whether the re-employment prospects of the participants are increased (the probability of employment in a regular job). On the other hand, if the aim of combating poverty and creating more security for particular disadvantaged groups is seen as more essential in times of rapid transition or economic crisis, then the effectiveness of ALMPs has to be judged along other criteria.

Recently some researchers, while evaluating the impact and success of ALMPs started taking into account '*self-assessment of the participants*' as an important criterion (approach used for instance by the evaluators of the 'Beautiful Serbia' programme). This approach emphasizes that the real aim of social policies should be improving how people feel about themselves while labour market outcomes are only a means to reach improved self-assessment by people. Based on this assumption the evaluation of the Beautiful Serbia programme concludes that even if the programme did not lead to better labour market outcomes for participants relative to non-participants, it led to improved self-assessment regarding broader social contacts, better health status and personal qualifications and skills as well as greater chances to find a job, and thus it should be considered as a successful one.<sup>43</sup> Following this approach one can think about adding one more function to the list of ALMP functions provided above, namely – *improve self-assessment of the participants*.

Thus, as a supporting tool (not as a key remedy for unemployment and not as an instrument for large job creation), ALMPs are widely used by policy makers as they proved to make positive contributions to increasing the flexibility of the labour force and to fighting against unemployment. It is also recognized that ALMPs in their combination and interaction with the benefit system can increase the 'activation' results. In particular ALMPs:

- Improve job matching (counselling, job brokerage);
- Increase labour demand (start-up support, employment incentives, direct job creation, public sector employment);
- Reduce skill mismatches (training programmes);
- Integrate representatives of vulnerable groups into the labour market (measures for disabled, other 'hard to place' groups, etc.);
- Build human capital and prevent its deterioration (skills upgrading).

ALMPs were widely used to mitigate the negative effects of restructuring in transition economies and to integrate vulnerable groups most distant from the labour market. However, it is emphasized in the literature that the whole context of ALMPs application in

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<sup>43</sup> This is how Lehmann and Kluve interpret the approach taken by the evaluators of the 'Beautiful Serbia' programme in 'Assessing Active Labor Market Policies in Transition Economies', DARRT, Department of Economics, University of Bologna and IZA, 2008, <http://www2.dse.unibo.it/wp/646.pdf>, p.20.

the transition countries is more complex compared to 'old' Member States. The actual situation of labour markets reflects numerous influences, many of which are beyond the reach of labour market interventions. Besides, the transition period (basically in all countries that recently followed this path) is characterized by certain labour market features, which seriously affect the applicability of classical ALMPs and the possibilities to materialize their potential of improving labour market performance. To mention among them:

- Very limited capability to create new jobs (the number of newly created businesses is not sufficient to absorb the workers displaced during restructuring process);
- Stagnant nature of the pool of unemployed (very low outflow rates);
- Duration structure of unemployment with a strong tendency towards long-term unemployment;
- Competition for jobs among the unemployed is much stronger in transition markets;
- Large stock of accumulated human capital among the unemployed.

As emphasized by the experts leading the research on ALMPs' evaluation in the transitional context 'With the beginning of economic reform in the formerly centrally planned economies of Central and Eastern Europe (CEE), open unemployment rapidly reached comparable levels to those in Western economies. Governments in the region reacted to this rise by adopting active labour market policies (ALMP) as an important tool in the fight against unemployment. The policies that were adopted had been developed in mature market economies, i.e. in a very different context.' Taking into account all the specific features of labour markets one should consider the rationale of applying these policies in such labour markets. 'The main conclusion of these considerations is that one has to be rather careful when transplanting ALMP measures from labour markets where the bulk of the unemployed consists of marginalized and marginal groups to labour markets where even the core of the labour force can experience prolonged spells of unemployment.'<sup>44</sup>

### **3.2 Active labour market programmes: institutional setting**

For WBCs ALMPs still remain a relatively new tool, which started being used during the last decade. In Serbia the 2003 Law on employment and unemployment insurance for the first time introduced ALMPs. In Croatia it was earlier – in 1998, when the government document 'National Policy for Employment' emphasized the role given to active labour market policies. In Montenegro the first ALMPs supporting apprenticeships, entrepreneurship and self-employment were initiated by PES in the 1990s. In Albania ALMPs were first introduced in 1999 (formally in 1995). In the former Yugoslav Republic of

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<sup>44</sup> Lehmann H., Kluve J. - Assessing Active Labour Market Policies in Transition Economies. IZA, 2008, p. 28 <http://www2.dse.unibo.it/wp/646.pdf>

Macedonia ALMPs started being consistently used only since 2007, having very limited mainly ad-hoc or donor-driven initiatives before that. By now Croatia has developed a more comprehensive approach towards ALMPs compared to other countries in the region. In many WBCs (especially in Kosovo, the former Yugoslav Republic of Macedonia) the introduction of ALMPs was strongly supported by international organizations such as European agencies, UNDP and World Bank.

Gradually the countries accumulate experience and make certain progress with incorporating active measures in the national employment strategies. But generally, the portfolio of ALMPs remains rather limited and the number of unemployed people involved in ALMPs is low. In Albania only 1.5% of unemployed were involved in ALMPs in 2009 (however excluding training by public formation centres), in the former Yugoslav Republic of Macedonia the figure was less than 2% for 2008<sup>45</sup>. Participation was only slightly better in Croatia (2.4% in 2009) and Kosovo (3.8% in 2008). As emphasized recently by ILO experts, active labour market instruments were introduced in line with international trend, but 'mainly as remedial measures to response to perceived labour market problems'<sup>46</sup>. In some countries, like in BiH, active labour market measures are poorly developed and implemented because of the lacking skills of PES employees, budget allocation procedures (residual approach), and the complicated organizational structure of the PES in BiH. Similar factors related to underdevelopment of employment institutions being not able to effectively implement expensive and administratively complicated active labour market programmes restrict the impact of those measures in other countries (Kosovo) as well.

The main approach and goals of ALMPs are specified in National strategic documents adopted by the governments (like NEAP 2005-2008 and NEEP 2009-2010 in Croatia, NAPE in Montenegro). This is done in line with the EU guidelines as the candidate countries have an obligation to harmonize their legislation with EU acquis. Further annual plans specify the details. In case of Croatia JAP priorities play a guiding role and for each priority there are specific measures planned. In the former Yugoslav Republic of Macedonia, starting from 2007 the Government (MLSP) prepares an annual Operational Plan for active labour market measures (OP) which can be considered as a move towards a programming approach to ALMPs.

It is rather typical that **elaboration of active measures and their implementation** is done by different bodies. ALMPs are usually designed at central level by the respective departments of the Ministries for Employment. However, in Montenegro, until recently, PES had a decisive role in the design and delivery of active labour market measures with a

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<sup>45</sup> Labour Market in the Former Yugoslav Republic of Macedonia. A Study for the EC. October 2009, p 119.

<sup>46</sup> Young people and their transition to decent work in the Western Balkans. A background paper for the Informal Meeting of Ministers of Labour and Social Affairs during the International Labour Conference. Geneva, 12 June 2008. ILO.2008, p.23.



large degree of independence and freedom. But according to a new law ALMPs are defined in the NAPE, which is prepared by the Ministry of Labour and Social Welfare and then gets approval of the Government.

In Serbia the Employment Department of the Ministry of Economy and Regional Development is responsible for the design of ALMPs and before the programmes are adopted by the government they are reviewed and consulted by the Socio-economic council. The annual programmes of ALMPs have not been changed significantly in the past several years meaning that the incentives to improve the ALMPs are limited. This also has to do with the absence of the instruments for monitoring and evaluation that should provide inputs for future planning and adjustment. In Croatia the Ministry of Economy, Labour and Entrepreneurship is the institution responsible for designing labour policy measures. But a number of other Ministries are also involved with ALMPs and elaboration of the programmes is also done by them in parallel. The coordination in the policy designing phase is clearly lacking, what results in overlapping of measures coming from different institutions.

In BiH, where the whole structure is rather complex, the design of the programmes lies not with the state level bodies, but with the entities (FBiH and RS). In FBiH it is also done at cantonal level, without much coordination with the entity level, thus creating inconsistency, while in RS with its strongly centralized system, the elaboration of ALMPs is fully done at the entity level. This difference results in more effective implementation and less regional disparities in the types of active policies and their effects in RS compared to FBiH. This example also demonstrates that the degree of centralization, as well as the distribution of responsibilities between levels (central, regional, local) might vary significantly and have an impact on the outcomes.

The **implementation of measures** is the responsibility of PES – central and regional/local offices – in the majority of the countries. PES central office is involved in overall coordination and methodological development, while the networks of branch offices take care of delivering the measures and provision of those services to clients, thus implementation is decentralized. In Albania, in case the active employment measure ensures employment of less than 50 workers, local employment offices deal with the implementation; otherwise decisions are taken by the central office. In some countries implementation is also supported by private employment agencies (like in Serbia where almost 60 of such companies signed the contract with PES for providing services, most often training).

In some countries, like Croatia, not all active measures fall within the responsibility of the PES but other institutions participate in the implementation of different measures (Ministry of Economy, Labour and Entrepreneurship; Ministry of Family, Veterans' Affairs and

Intergenerational Solidarity; Ministry the Sea, Tourism, Transport and Development; Ministry of Health and Social Care; Ministry of Science, Education and Sports; and Ministry of Finance). The inclusion of other institutions was the result of the notion that labour market problems should be considered within a wider perspective. However, this remains rather an exception compared to other WBCs.

### 3.3 Active labour market programmes: funding and budgetary rules

In spite of the fact that over the last decade WBCs have invested respectable funds in developing ALMPs, they continue to lag behind in terms of spending on active measures when compared to the EU Member States. The expenditures on active measures in the WBCs remain generally low (Table 1.8). However, it is comparable to expenditure of some NMS such as Slovakia (0.15%), Slovenia (0.09%), Romania (0.06%), Estonia (0.04%), etc. Montenegro even compares quite well to other Member States and is within the EU 27 average<sup>47</sup>.

Table 1.8

#### Public expenditures on active measures in % of GDP

Active measures expenditure as % of GDP	AL	BiH	HR <sup>†</sup>	KS	MK	ME	RS	BG	RO	EU-27
2010	n.a	n.a	n.a	0.11	0.12	0.33	0.12	n.a	n.a	n.a
2009	n.a	n.a	0.16	0.05	0.17	0.43	0.11	n.a	n.a	n.a
2008	0.02	0.08	0.14	0.07	0.06	0.45	0.11	0.26	0.06	0.46
2007	0.01	0.16	0.17	0.07	0.06	0.42	0.10	0.31	0.08	0.45

Source: CPESSEC Statistical Bulletin N 2. July 2009, National experts contributions, Eurostat.

The sources of the funds for active measures usually encompass: state budget, PES budget, funds from international donors.

In some countries, due to the lack of funds, ALMPs are implemented mainly (sometimes exclusively) in the framework of international donor programmes, as it was the case in BiH in 2008, when there were almost no active employment policy measures implemented, beside those envisaged by the Second Employment Support Programme (the World Bank programme for period 2005-2008).<sup>48</sup>

At the same time it should be noted that some WBCs in recent years increased their budgets allocated for ALMPs. For example, in the former Yugoslav Republic of Macedonia the ALMPs' share in GDP increased from 0.1% in 2007 to 0.2% in 2008 and the budget

<sup>47</sup> Eurostat data 2009.

<sup>48</sup> ETF Human Resource Development Country Analysis Bosnia and Herzegovina. Working paper. 2008, p.7.

continued to grow in 2009 supported by relevant legal provisions in this direction: the Law on Employment and Unemployment Benefit was amended in 2007 to permit allocation of 5% of employment contributions for active employment measures<sup>49</sup>.

It is explicable that generally the level of ALMPs expenditures is low in WBCs as the countries in the course of transition face serious fiscal problems and have very limited resources to dedicate to ALMPs. The economic crisis aggravated the situation and already exercised a negative effect on ALMP budgets. The severe governmental budget constraints dictate the curtailing of some programmes. As emphasized by ILO experts, 'the economic crisis has tightened the resources constraints, making the LMP response even more challenging for developing economies, especially low-income countries'<sup>50</sup>. As for WBCs, in Croatia 2009 active measures were revised downward and while in 2008 the Croatian PES spent EUR 18.4 million on ALMPs, the expenditure in 2009 fell to EUR 13 million. Euro. The positive sign is that the 2010 budget has again been increased to EUR 17.1 million. Similarly, in Serbia instead of EUR 37 million that were earmarked in the 2009 budget for active labour market measures, only EUR 5.3 million have been allocated after the budget revision<sup>51</sup>. The plan for 2010 was ambitious as it foresaw an increase in ALMP expenditure of 13% compared to 2009.

While looking at the ALMPs budgets in WBCs it is worth keeping in mind that between European countries there is a wide variation in expenditure rates on ALMPs. Significant differences are observed both within the group of old MS, as well as within NMS. Those variations do not primarily depend on the level of unemployment in the countries. Generally the expenditures on ALMPs are lower in the NMS compared to the EU 15, in spite of the fact that the unemployment rates in NMS are usually higher. But also among EU 15 very different approaches are observed<sup>52</sup> (Scandinavian countries are traditionally relying much more on the ALMP instrument compared to UK, Spain, Portugal, Greece). Countries tend to develop different policy patterns in which ALMPs play traditionally either a bigger or a rather modest role. Thus, within WBCs such choices might also vary.

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<sup>49</sup> ETF Country Analysis: The former Yugoslav Republic of Macedonia, 2009, p.8

<sup>50</sup> ILO. Labour market policies in times of crisis. Employment Working Paper No. 35. 2009  
[http://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/--emp\\_policy/documents/publication/wcms\\_114973.pdf](http://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_policy/documents/publication/wcms_114973.pdf)

<sup>51</sup> Materials of the Fifth Managerial Conference of PES in SEE 'Evaluation of the Efficiency of Labour Market Measures in the Context of Global Economic Crisis' (November 2009)

<sup>52</sup> There is a large heterogeneity across Member States. There are numerous countries with high public spending on ALMP (more than 1 percent of GDP) including Belgium, Denmark, Finland, France, Germany, Sweden and especially the Netherlands with the highest amount of spending (1.85 % of GDP) on active measures. In contrast, there are still a few countries with rather modest spending on ALMPs (less than 0.5%) including Greece, the Slovak Republic, the United Kingdom, and the Czech Republic (with the lowest spending of only 0.17 % of GDP). Furthermore, the remaining countries (Austria, Hungary, Italy, Norway, Portugal, Spain and Switzerland) spent between 0.5 and 1% of their respective GDP. In contrast, active measures receive rather little attention in the United States; their spending of only 0.13% of GDP is lower than for any European country. For more details see: Kluge J. 'The Effectiveness of European Active Labor Market Policy', RWI Essen, IZA Bonn, 2006.  
[http://www.iza.org/conference\\_files/SPEAC2006/kluge\\_j515.pdf](http://www.iza.org/conference_files/SPEAC2006/kluge_j515.pdf)

Researchers point at an interesting regularity. In international comparison high net replacement rates do correlate strongly with high spending on labour market programmes<sup>53</sup>. For benefit replacement rates of 60-65% the total cost of labour market programmes (both active and passive) remains moderate (about 1% of GDP), but when replacement rate goes above 65% the costs accelerate fast and in the countries with 70% replacement rate they amount already to 2% of GDP and even more. As WBCs belong to the group of countries with low net replacement rates (as it was emphasized in section 2.1.2 of the report), it is not surprising that their spending on labour market programmes is very scarce.

Next to the problem of restricted funds for ALMPs there are specific issues in the WBCs related to budgeting rules and practice.

- It is a rather common that the allocation of funds for active labour market programmes is residual. As ALMPs are mainly funded from the same source as unemployment benefits, the resources available for them move in the opposite direction to the trend in unemployment. As a consequence, the budget for ALMPs is rather uncertain and varies from year to year, making planning of revenue, expenditure, and implementation of labour market measures difficult. In some cases, as a temporary remedy, the 'injections' of additional money from the finance Ministries are used. But as it is emphasized by international experts, without clear legal and budgetary distinction between (i) the source of financing for income support and (ii) the source of financing for other employment programmes the income support programme expenditures tend to 'crowd-out' investments in employment service and other active labour market programmes<sup>54</sup>.

The typical case is Bosnia and Herzegovina where available funds are distributed first to cover the administrative costs of the service (staff expenditure and other expenses for running the Employment Services), and second, to cover the expenditure on unemployment benefit and costs related to people who are insured and entitled to benefits. All other activities, including active labour market measures, are funded out of what is left<sup>55</sup>. It is reported by ETF<sup>56</sup> that in 2008 the situation has become even worse since the majority of funds for employment measures (collected through the contribution system) were reallocated for new passive measures.

- The budget for ALMPs in the majority of WBCs is centralized and budget allocation per each measure is defined at the national level. It is diagnosed by experts that budget

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<sup>53</sup> See: David Grubb 'Labour market policies at different benefit replacement rates'. Thematic paper at the Thematic Review Seminar of the European Employment Strategy. OECD. 2007, p. 7-9.

<sup>54</sup> See Fretwell D., Goldberg S. 'Developing Effective Employment Services', World Bank Discussion Papers, 1993, p 30. [http://www.naalc.org/english/pdf/emp\\_serv/developingeffectivES-D.Fretwell-docum..pdf](http://www.naalc.org/english/pdf/emp_serv/developingeffectivES-D.Fretwell-docum..pdf)

<sup>55</sup> See: Employment Policy Review Bosnia and Herzegovina, ILO and Council of Europe 2007 and 2008; Kuddo, A. (2009) 'Employment Services and Active Labor Market Programs In Eastern European and Central Asian Countries', SP Discussion paper No. 0918, p.35.

<sup>56</sup> ETF Country Plan Bosnia and Herzegovina, 2009.

formation clearly misses the 'regional' perspective and that budget distribution does not take fully into account regional needs.<sup>57</sup>

In Croatia there is no budget allocation per each county and there is no negotiation between central and regional level on budget allocation per measure. Rather often regional employment offices have no information on how the budget allocation was established per each measure.

- The experts who recently were undertaking the evaluation of ALMPs point at prevailing annual budgeting (which follows government procedures) as an obstacle towards successful implementation. The continuity of ALMPs measures is not possible as funds are not available between November each year until March or April of the following year, when the state budget is approved. An example of Croatia and BiH can be provided. The funds for the ALMP are derived from the budget, and sometimes the adoption of the budget comes late in the year or the approval of funds for ALMP are not adopted at the same time as the budget. Thus there are sometimes only a few months in the year when the unemployed would be able to benefit from ALMPs. According to the Croatian PES measures related to training are the most affected by this lack of continuity<sup>58</sup>. It appears that under those conditions a multiannual approach of budgeting could improve the situation and should be developed for the future.
- Controversially the problem of very limited budget resources is in some countries combined with restricted absorption capacity. An evaluation research conducted in Croatia showed that in 2006 only 60% of funds available for ALMPs had been used, confirming that there was no competition for funds.<sup>59</sup> While in other cases (such as FBiH) late approval of the yearly plan by the Government causes late start of the programmes resulting in their partial implementation and only partial utilization of the allocated funds.

### **3.4 Evaluation and monitoring**

The evaluation of ALMPs did not yet become a common rule in the WBCs. Experts admit that the current practice involves very limited evaluations, with poorly developed criteria usually focused on the number of participants in a specific activity or on the question whether the funds spent on the measure equal the funds planned. While the analysis of effectiveness, in terms of whether the measure is actually increasing employment or the probabilities of finding a job for the unemployed person, are still missing.

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<sup>57</sup> GVG (2008), Evaluation of Active Labour Market Policies implemented by CES, Final Report – Component 1 and 2 for International Economic Studies, July 2009, p. 59.

<sup>58</sup> GVG (2008), Evaluation of Active Labour Market Policies implemented by CES, Final Report – Component 1 and 2 for International Economic Studies, July 2009. p. 9-10

<sup>59</sup> GVG (2008), Evaluation of Active Labour Market Policies implemented by CES, Final Report – Component 1 and 2 for International Economic Studies, July 2009., p.10

If the evaluations of single selected measures are occasionally conducted, it is done on ad-hoc basis most often in the framework of projects supported by international donors. Some examples are given in Box 1.1. The fact that among the measures proposed by the countries to be presented in the context of the current study as 'good practice examples' only two out of twelve have been evaluated (at least at some point of implementation) confirms that actual evaluation practice is very limited.

Box 1.1

### **Examples of ALMP Evaluations**

Ognjanov, G. and L. MacKellar (2007), *Mid-term Evaluation: Severance to Job Project*, Belgrade, July.

Ognjenovic, K. (2007), 'The Use of Propensity Score-Matching Methods in Evaluation of Active Labour Market Programmes in Serbia', Faculty of Economics Belgrade, *Economic Annals*, Vol. 52, No. 172, January-March, pp. 21-53.

Bonin, H. and U. Rinne (2006), 'Evaluation of the Active Labour Market Programme Beautiful Serbia', IZA Discussion Paper No. 2533, December.

Economic and Social Policy Institute (2006), 'Assessment of the Effectiveness of ALMP', Mimeo, Belgrade, September.

de Koning, J., K. Korolkova et al. (2006), 'Technical Assistance for Evaluation and Monitoring of Employment Promotion Project in Serbia', Final Report, Rotterdam, December.

Donor Study: Benus, J., J. Rude and S. Patrabansh (2001), Emergency Demobilization and Reintegration Project (EDRP) (1996-99). This study evaluates the effectiveness of EDRP by assessing net impact of its ALMP components.

Seetharam, M. (2008), 'Evaluation of Active Labour Market Programme for Youth in Kosovo', DevTech Solutions, Woking (UK), June.

[http://www.kosovo.undp.org/repository/docs/ALMP%20External%20Evaluation%20Report June08.pdf](http://www.kosovo.undp.org/repository/docs/ALMP%20External%20Evaluation%20Report%20June08.pdf)

GVG (2008), PHARE 2005: Evaluation, design of recommendations, capacity building and grant scheme management in the field of active employment measures in Croatia, Final report, November, <http://www.hzz.hr/phare2005/userdocsimages/Monitoring.pdf>.

In countries like Croatia where next to PES several ministries are also involved in ALMPs, the central analysis of all measures is not conducted regularly, but rather each institution carries out analysis of the programmes within its own responsibility and introduces the changes to the measures in its own domain. This results in uncoordinated steps and fragmentation.

The fact that evaluation of labour market policies in Croatia is still underdeveloped can be easily observed in the NEPP activities planned for the year 2009 and 2010, where the issue of 'implementing the system of continuous monitoring and ALMP evaluation' is emphasized as important task for the future. At the same time NEPP does not give any practical rules for evaluation and is too general. It only indicates the need for evaluation but

does not elaborate on this, nor does it give ideas for or references to certain guidelines or a framework for evaluation.

Similarly in Montenegro no ex-post or ex-ante evaluation of any programme has been done so far. The degree of ALMPs' success is only assessed through the PES reports. However, the new Law on Employment and Exercising Rights from Self-employment introduces monitoring and evaluation of active measures. The Ministry of Labour and Social Welfare is in charge of conducting performance evaluation of all activities implemented by the PES which entails the setting of the evaluation mechanisms. The Ministry benefited from the support of the EU through the project Labour Market Reform and Workforce Development, which was aimed at building capacities within the Ministry for policy making. Also, one part of the project was dedicated to the design and preparation of active labour market measures; however, there were no changes in terms of delivery and preparation of ALMPs. In the former Yugoslav Republic of Macedonia, the net impact of ALMPs has not been assessed since 2002, when programmes conducted with the support of the World Bank in 1996-1999 were evaluated<sup>60</sup>.

In Albania, one of the main objectives of the 2007-2013 strategy of the Ministry of Labour is the further improvement of the monitoring and evaluation process of employment services since currently no clear arrangements exist. Improvement of the situation is expected when the 'Bank of job placements' and the job seekers' register, which up to 2010 have only been piloted in the cities of Tirana and Korca, will become operational on a countrywide basis. Moreover, there is a need to identify and add special funds to the total funds for the measure, to be dedicated to evaluation activities. Furthermore, no comprehensive evaluations of programmes have been launched in Albania so far, only certain steps were taken to interview programme participants for the purpose of controlling the providers.

Although there are recent steps (Montenegro, Croatia, Serbia) to introduce evaluation on a regular basis, still in practically all WBCs there is a general lack of understanding how evaluations should be executed (framework for evaluations), how they should be organized (who has to do it?) and how to use evaluation results as a means of improving the quality of policies. There seems to be an insufficient knowledge of what evaluation actually consists of (general theory and methods<sup>61</sup>), what its requirements are (in terms of know-how, data-requirements, software, etc.) and how it should be organized in practice. It should be mentioned that some of these things are only relevant for those who actually have to carry out evaluations (research institutes, universities, etc.) and not for those who are responsible for policy making.

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<sup>60</sup> See World Bank, Active Labor Market Programs in FYR Macedonia, Policy Note, Report No. 45258-MK, September 2008.

<sup>61</sup> See for example: Nigel Meager and Ceri Evans: *'The evaluation of active labour market measures for the long-term unemployed'*, ILO, 1998 or Gaëlle Pierre: *'A framework for active labour market policy evaluation'*, ILO, 1999.

One of the most important and legitimate reasons for the fact that evaluations are rarely carried out is the very limited funding that is available to the ministries. Their budgets are often not sufficient for carrying out even measures mentioned in the plans, let alone carrying out any kind of evaluation. However, evaluations – when carried out properly – have a potential to decrease falsely allocated funding and thus contribute to the release of additional funding.

The current situation with respect to the institutions and organizations that are supposed to carry out the evaluations is not fully clear. Evaluations in other European countries are conducted in a number of different ways. Among national key actors who play important but different roles in the evaluation process are:

- private firms and consultants who usually compete for the evaluation contract;
- academic researchers and institutions;
- public sector institutions (Ministries of finance, audit offices, other agencies sometimes with an independent status);
- departments and units within ministries which conduct internal evaluations;
- review committees.

The market of private providers, who could conduct independent evaluations on a competitive basis, is not developed in the WBCs, although for reasons of independence it is desirable to involve external evaluators. However this has to be seen in the light of a shortage of budgets, which makes it almost impossible to pay commercial institutions for performing evaluation studies. The skills within universities and research institutes are not fully clear, but there are doubts that currently the local expertise is sufficient in order to perform the evaluations (at the same time it should be mentioned that there are research groups with evaluation expertise in some research centres, like in the Faculty of Economics Belgrade (see examples in Box 1.1).

Ministries have performed some internal formal evaluations of their activities in terms of descriptions, but not in terms of effects. The evaluations of the NEP measures by the Ministries do not contain any form of evaluation methodologies, but rather consist of figures on expenditures on different programmes and suggestions for re-allocation of funds. Evaluation departments or units are not common in the structure of the ministries.

Thus, if we look at the pluralistic structure prevailing in European evaluation systems, it is necessary to stress that at the moment WBCs do not have all the components and actors of such structure. The Audit Agencies, Ministries of Finance, other ministries, institutes and firms providing evaluation expertise have to take up their roles and establish themselves in the policy evaluation domain. It is unlikely that WBCs will escape the policy evaluation



tendency. Question remains when, how actively and along which lines evaluation capacity would be build up.

A strong impulse for the development of evaluation in many European countries was given through programmes financed by the Structural Funds which made systematic evaluation mandatory. Only after the adoption of the rules for the period 1994 -1999 evaluation requirements increased significantly. According to the rules prior economic appraisal became a necessary condition for receiving the funding; it was recognized as unavoidable for obtaining Community support. An evaluation culture, which was rather weak in the 1980s and at the beginning of the 1990s, started growing gradually and by now evaluation has become an integral part of the policy formation process. It is likely that the prospects of using Structural Funds in the future will stimulate similar developments in the Western Balkans and all the experience accumulated by now in the European Union represent a rich resource to learn from.

### **3.5 Targeting and target groups**

#### *3.5.1 Targeting: issues to consider*

Active labour market programmes represent a useful, but rather expensive instrument to address unemployment. The lack of financial resources typical for the transitional context puts additional pressure to maximize the labour market benefits from ALMP spending. International experience suggests that the proper targeting of programmes can significantly increase their effectiveness (targeting is considered effective if the chosen group of unemployed increases the likelihood of regular employment as a result of participation in ALMPs), while poor targeting leads to vague programme results and might restrict access to services for those unemployed who face more labour-market disadvantages than others.

There are different targeting dimensions. Most often targeting is interpreted in terms of directing ALMPs at specific groups of clients. In this case different criteria can be applied: age, education, gender dimension, belonging to a particular social group, distance from the labour market, etc.

Targeting might also concern industries (training for particular professions requested by particular industries or programmes supporting restructuring of certain industries), companies (measures aimed at supporting creation of new businesses) and regions (launching active measures only in the most problematic regions). Active measures often are targeted at hard-hit regions and industries, disadvantaged groups, and/or the long-term unemployed.

Some researchers have raised the issue of targeting ALMPs according to the types of unemployment that exist (cyclical unemployment; structural unemployment; frictional

unemployment)<sup>62</sup>. Most countries experience more than one type of unemployment simultaneously and depending on the combination of unemployment components the choice of active measures could vary. In view of economic restructuring that took place in WBCs, it is estimated that much of the unemployment that exists in this region is of structural nature. The current economic crisis aggravates the situation by strengthening cyclical and frictional unemployment. Some general conclusions that follow from the above mentioned research are<sup>63</sup>:

- Active programmes generally represent a tool that is most suitable to cope with moderate short-term cyclical unemployment
- Employment services, such as job placement services, address frictional unemployment; while Skills Training is effective in reducing structural unemployment.
- Employment incentives (wage subsidies, tax exemptions, start-up loans) may help to alleviate the lack of demand for labour, which could result from cyclical or structural unemployment.
- Complementary interventions, such as Skills Training and/or Employment Services may be needed to address unemployment of mixed origin.

Given the dominating type of unemployment some researchers suggest that skills training and small business assistance programmes might be effective interventions in transition countries.<sup>64</sup> A similar approach was taken by some of the NMS trying to address structural unemployment (e.g. Estonia).

In most EU countries the recipients of unemployment benefits and other social benefits are the main target group for activation policies if not the only one. In the EU countries the recipients of unemployment benefits form a large group within registered unemployed (about 68% in Denmark, 59% in France, 65% in Germany, 70% in Ireland, 42% in Spain, 34% in the UK, 20% in Italy)<sup>65</sup>, while in WBCs the share of unemployed receiving the benefits is generally very low (particularly in Albania and the former Yugoslav Republic of Macedonia – in both countries only around 7%) and focusing activation policies only on them would be too narrow as it would leave aside such essential groups as ‘young unemployed’ (who are not entitled to benefits) or long-term unemployed (who already

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<sup>62</sup> Betcherman, Gordon, et al. 2000. ‘Active Labor Market Programs: Policy Issues for East Asia.’ *Social Protection Discussion Paper Series*, No. 0005. Washington, DC, World Bank. Available: <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SPDiscussion-papers/Labor-Market-DP/0005.pdf>. [Accessed December 9, 2009].

<sup>63</sup> As summarized in: Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009 [http://pdf.usaid.gov/pdf\\_docs/PNADM044.pdf](http://pdf.usaid.gov/pdf_docs/PNADM044.pdf)

<sup>64</sup> As summarized in: Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009, p.7

<sup>65</sup> Tatsiramos K. , ‘Unemployment Insurance in Europe: Unemployment Duration and Subsequent Employment Stability’, IZA Discussion Paper No. 2280, 2006, <ftp://repec.iza.org/RePEc/Discussionpaper/dp2280.pdf> p. 30.

exhausted their benefit entitlement period), etc. The EU countries also aim with ALMPs at the recipients of social assistance benefits, while this is not the case in the majority of WBCs and activation measures do not yet reach this group (lack of funds, absence of coordination between PES and welfare institutions, etc.).

Generally targeting and prioritizing are rather weak in WBCs. Often the targeting requirements are not fully taken into account. In some cases the targeting approach even comes in contradiction with the principle of 'universally available ALMPs' set in the legislation (for example in Montenegro<sup>66</sup>). Often the defined target groups are so numerous or large that the purpose of targeting is lost. For example, in Croatia, especially in the earlier period (2002-2005) target groups were defined so widely that 95% of unemployed were eligible to apply. In the former Yugoslav Republic of Macedonia up until now many programmes are open to all registered unemployed. ETF experts pointed out bad targeting of active labour market measures in Kosovo related to a lack of coordination between social assistance and employment services<sup>67</sup>.

ALMPs target groups are usually defined by NAPE (or in other strategic documents), on the basis of some analysis of the unemployment situation, as well as other national policies. EU directives and guidelines are also considered when deciding about target groups. Most often the main idea of targeting is to reach the most vulnerable groups. Targeting goes along such criteria as:

- Age (young job seeker below a certain age or older job seekers after a certain age);
- Education (low skilled unemployed or job seekers with university degree, etc.);
- Gender (women belonging to a certain group);
- Belonging to a particular social group (single parents, people with disabilities, war veterans, refugees and displaced persons, redeployed and redundant workers, etc.);
- Distance from the labour market (long-term unemployed, etc.);
- Minority groups (Roma, etc.);
- Status (recipients of unemployment benefit, welfare recipients, persons registered as unemployed, but engaged in informal economy, etc.).

Other targeting dimensions are only to a certain extent taken into account in some of the WBCs. For example, there are active measures aimed at particular **industries**, like training programmes in Montenegro for the manufacturing industry (metal processing, food processing, etc.), agriculture, constructing, tourism and catering, or measures in Croatia targeting **companies** in restructuring (e.g. the recently introduced 'Mobile teams programme' providing various services for companies facing difficulties and confronted with

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<sup>66</sup> See ILO and the Council of Europe (2006 and 2007), 'Employment Policy Review – Montenegro' <http://www.coe.int/t/dg3/socialpolicies/socialrights/source/EmploymentPolicyReviewMontenegro.pdf>

<sup>67</sup> ETF 'HRD country analysis Kosovo', 2008.

a necessity to dismiss part of their employees), as well as measures motivating SMEs, trades and crafts firms to employ certain vulnerable groups (incentives and tax exemptions to such businesses in Croatia). Generally, **regional aspects** are often lacking, in spite of the fact that regional disparities are very significant and constitute a real challenge in the majority of WBCs. But in some cases, like in Montenegro, active labour market programmes were redesigned (2008) to tackle large regional unbalances, especially between the northern region and the other two regions. To this end PES joined its efforts with the Development Fund of Montenegro and the Agency for SME Development for the realization of the new programme 'Job for You'. The programme was aimed at 11 municipalities of the northern region and 2 lagging behind municipalities of the central region and encompassed a set of measures.

In Serbia most active measures, as stated during the CPESSEC Conference in November 2009, are targeting employment of vulnerable categories of the unemployed (youth, people older than 45/50, disabled people, long-term and discouraged unemployed people, socially disadvantaged people, the Roma, refugees and displaced people, unskilled people, redeployed and redundant workers).

In Croatia the main target groups for activation policies are similar: young unemployed, women, older workers, people with disabilities, minorities (Roma, Serbian minority, etc.) and war veterans. The majority of measures are designed for those groups. But there are also programmes for specific sub-groups, like young unemployed without high education or women after a certain age.

BiH has put a strong emphasis on targeting war veterans (demobilized soldiers), as well as returned refugees, long-term unemployed, Roma, people with disabilities and highly educated youth with no work experience. In Albania, as stressed by the IMF<sup>68</sup>, such vulnerable groups as young people aged 18-25 years, women, people with disabilities and Roma create a special challenge for the government and direct employment opportunities and special employment programmes have to be developed for them. In Albania the Decent Work Agenda aims at ALMPs that are gender-sensitive and target unemployed at risk of labour market exclusion.

Apart from targeting dimensions and criteria there are other issues that are discussed in relation to targeting. One of them is related to the scope of services to be provided to different groups of clients who might be categorized according to the level of 'employability'. Experts suggest adjusting the legislation to ensure universal access to general employment services while keeping ALMPs for the 'hard-to-place'. In the framework of the Bucharest Process it was recommended rethinking the current system so

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<sup>68</sup> Albania: Poverty Reduction Strategy Paper—National Strategy for Development and Integration, IMF Country Report, 2008, p 56. <http://www.imf.org/external/pubs/ft/scr/2008/cr08269.pdf>

that there is a platform of services for all job seekers – including a modern information technology (IT) system – and also intensive assistance for the ‘hard-to-place’.<sup>69</sup>

For example, The Employment Policy Review prepared by ILO and the Council of Europe for Montenegro in 2006-2007 emphasized the following recommendation: ‘It is important that the EAM pursue objectives relating to both labour market efficiency and equity. This can be done by targeting employment services and ALMPs more effectively at clients who are at a disadvantage in the labour market’<sup>70</sup>. Further developing its strategy and following the advice of international organizations, Montenegro at the recent CPESSEC Conference (November 2009) reported the progress in targeting different groups of clients, classifying them in three main categories: directly employable (29.3%); employable under certain conditions (35.7%); hard-to-employ persons (35%). A similar approach is adopted by Croatia – Table 1.9.

Table 1.9

### Croatian differentiated approach

Services towards employable persons	Services towards hard-to-place persons
Increased job-matching services	Increased job-matching services
Employment counselling	Employment counselling
Information on vacancies: <ul style="list-style-type: none"> <li>- Information via SMS</li> <li>- Information via e-mails</li> <li>- Call Centre (in preparation)</li> <li>- Career Development Centres</li> </ul>	Vocational guidance
Job mediation services	Team treatment with the aim of identification of ‘new occupation’ Training for acquiring job search skills Training for acquiring professional skills Co-financed employment Public work programmes

Source: Croatian Employment Service <http://www.ilo.org/public/libdoc/ILC2009/TD7/Jarallah%20TD7.pdf>

Other researchers express some doubts that the widely used approach of targeting most difficult groups will be working well in the context of the Western Balkans. According to them ‘the labour markets in the transition countries of Central and Eastern Europe (CEE) have had special features for many years after the onset of transition that made them quite different from labour markets in mature OECD countries’<sup>71</sup>. Focusing on the features that are relevant for the adaptability of ALMP measures, those authors conclude that targeting

<sup>69</sup> See ILO and the Council of Europe (2006 and 2007), ‘Employment Policy Review – Montenegro’ <http://www.coe.int/t/dg3/socialpolicies/socialrights/source/EmploymentPolicyReviewMontenegro.pdf>, p.40.

<sup>70</sup> See ILO and the Council of Europe (2006 and 2007), ‘Employment Policy Review – Montenegro’, p.44.

<sup>71</sup> Lehmann H., Kluge J. ‘Assessing Active Labor Market Policies in Transition Economies’, 2008, p.6. <http://www2.dse.unibo.it/wp/646.pdf>

of ALMPs in the transition context becomes very challenging and the traditional 'recipe' to focus on 'most difficult groups' among unemployed might not work.<sup>72</sup>

Assuming that targeting is effective if the chosen group of unemployed increases the likelihood of regular employment for participants of ALMPs and looking from this point of view at the prospects of certain disadvantaged groups (less-skilled, older workers, long-term unemployed) those researchers suggest that targeting the most vulnerable groups in the transitional context of WBCs might turn out to be ineffective as it does not 'lift participants into regular employment'<sup>73</sup>. Some of the provided arguments are summarized in Box 1.2. On the basis of these arguments it is advised to help such groups as unemployed who are older, of average or little motivation, and who have long spells of unemployment with the means-tested social assistance, instead of targeting them for ALMP measures.

Box 1.2

#### **Targeting of disadvantaged groups**

**Low skilled:** Half of the stock of unemployed lacks any skills, while about one quarter have at least medium education. If training measures are targeted at low-skilled it is not clear whether they can compete with a large stock of better educated unemployed

**Long-term unemployed:** In some WBCs the duration structure of registered unemployment is extreme. In the former Yugoslav Republic of Macedonia more than 80% of the unemployed are more than a year without a job and almost 60% – more than three years; in Serbia 77% and 43% respectively, in Croatia 55% and 35% respectively and in Montenegro 56% are unemployed for more than one year and 30% for more than three years. If active measures are targeted at this group of very long-term unemployed it is very uncertain whether the participants from this group increase their chances for a regular job as they to compete with short-term unemployed and new labour market entrants. Another aspect related to long-term unemployed is that according to expert estimates a rather large share of these people participates in the informal economy (40% of long-term unemployed in the former Yugoslav Republic of Macedonia do not get any income support from the state and it is logical to suggest that they earn their living in the informal sector). Keeping this mind, it is especially counterproductive to focus on this group.

Similar argumentation is provided concerning **older and less motivated unemployed**, who also form a considerable group (in some countries about 25% of all unemployed).

*Source:* Hartmut Lehmann – Macedonia's Accession to the EU and the Labour market: What can be learned from the New Member States. IZA Policy Paper N, 2010.

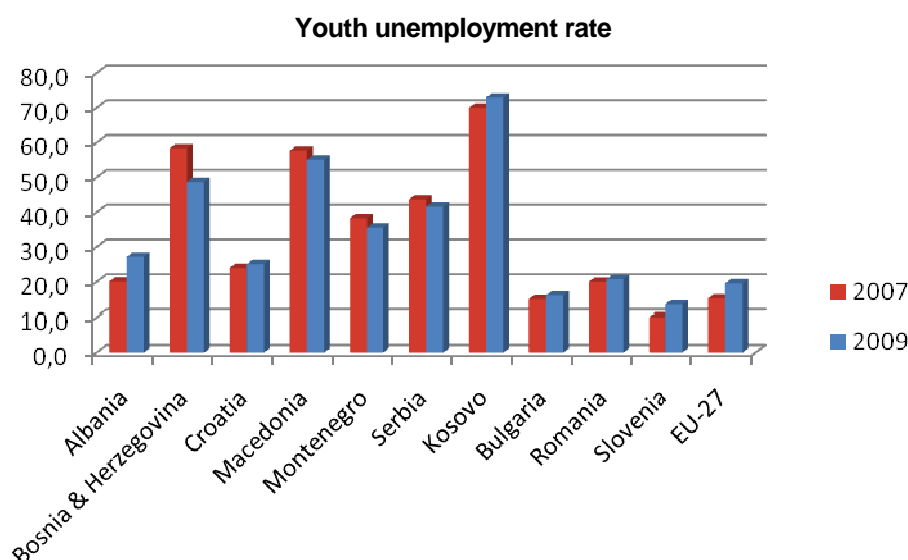
<sup>72</sup> See for example Lehmann H., Kluge J. 'Assessing Active Labor Market Policies in Transition Economies', 2008; Hartmut Lehmann – Macedonia's Accession to the EU and the Labour Market: What Can be Learned from the New Member States, IZA Policy Paper N 14. February 2010.

<sup>73</sup> See detailed explanations in Hartmut Lehmann – Macedonia's Accession to the EU and the Labour Market: What Can be Learned from the New Member States. IZA Policy Paper N 14. February 2010, p. 41.

### 3.5.2 Unemployed youth – a priority group

It is recommended to focus the available limited resources on youth and target the measures (wage subsidies, start-up incentives and training) at this group. Another argument to target young new labour market entrants is the very high incidence of unemployment among this group. Some countries, like BiH and the former Yugoslav Republic of Macedonia, reach 48% and 55% respectively whereas estimations for Kosovo even culminate in a rate of 73%. In Albania and Croatia youth unemployment is lesser pronounced than in the other countries of the region, but in all WBCs youth unemployment rates are higher than the EU average (Figure 1.2). Under these conditions it is not surprising that migration surveys demonstrate very high propensity for the group of young people. For example 80% of youth in BiH said they would like to leave the country<sup>74</sup>. Thus, there is a threat of significant brain drain and measures have to be taken to prevent it.

Figure 1.2



Source: National LFS. Eurostat

The causes of such high incidence are probably related to (i) inadequate educational system, which does not equip young people with the right skills required by the labour market<sup>75</sup>, as well as to (ii) the low job creation. Furthermore, the weaknesses of the unemployment benefit system (first job seekers are not entitled) increase the poverty risks and encourages work in the informal economy, in which young people are disproportionately represented. In some countries (e.g. Albania, Croatia, Kosovo) unemployment was hitting young people particularly hard as a consequence of the global economic crisis.

<sup>74</sup> Source: contribution by the national expert.

<sup>75</sup> See more details concerning VET and skills issues in Chapter 2 (on PES).

In 2008 ILO experts were analysing the efforts undertaken throughout the Western Balkans to address the youth employment problems. The conclusions drawn by the ILO were rather critical. It was emphasized that in spite of the efforts the employment prospects of young people had not improved over recent years. The following explanations for the limited impact of the initiatives taken so far were given<sup>76</sup>:

- None of the initiatives had been focused on policies aimed specifically at promoting youth employment.
- Most youth employment initiatives had taken the form of specific programmes, which had often been narrow in scope and limited in time, to address either job creation or the employability of young people.
- Little attention had been paid to the working conditions of young workers, many of whom are only able to obtain a foothold in the labour market through informal or temporary employment.
- The effectiveness of the measures taken to facilitate the transition of young people to decent work had often been affected by a lack of coherence and coordination, leading to conflicting policy objectives.
- The design and implementation of youth employment measures is rarely informed by thorough analysis based on reliable labour market statistics that are adequately disaggregated in relation to the youth cohort.

Realizing that the youth unemployment problem has become so acute and following the advice of international organizations the majority of WBCs recently have paid more focused attention to it. Active labour market programmes started being increasingly used to improve the labour market integration of young people and to cope with youth unemployment.

For example, the Serbian Government recently adopted the Youth Employment Policy and Action Plan of Serbia for 2009-2011<sup>77</sup> according to which approximately 41% of all Active Labour Market Programmes (ALMP) in the country target first-time job seekers (generally 18% of youth population aged 15 to 30 will benefit from this Plan). Recently in April 2009 a new programme for youth 'The First Chance' was launched by the Serbian government (for details see Box 1.3).

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<sup>76</sup> Young people and their transition to decent work in the Western Balkans. A background paper for the Informal Meeting of Ministers of Labour and Social Affairs during the International Labour Conference. Geneva, 12 June 2008. ILO.2008, p.25.

<sup>77</sup> ILO, Youth Employment Policy and Action Plan: A mid-term policy framework 2009-2011, [http://www.ilo.org/public/english/region/eurpro/budapest/download/empl/youth\\_emp\\_action\\_plan\\_serbia.pdf](http://www.ilo.org/public/english/region/eurpro/budapest/download/empl/youth_emp_action_plan_serbia.pdf) The Plan was adopted in September 2009.



Box 1.3

**Serbia: Youth Employment Programme – ‘The First Chance’** is an ongoing initiative, which according to the Director of the National Employment Service, is currently the most important programme for employment of young people in Serbia and is also seen as one of the urgent measures to cope with the economic crisis. It was launched in April 2009 by the Serbian Ministry of Economy and Regional Development, in cooperation with the PES. The programme targets registered young unemployed up to 30 years of age, without work experience within their vocational field and who have completed at least secondary education. During the volunteer practice they receive monthly remuneration (in the amount of RSD 10,000 – around EUR 95) from the government and if employers are satisfied with their work, they will sign trainee employment contracts for a period of one year.

Costs of social insurance of trainees are also paid from the budget, while employers must pay taxes on their salaries. After vocational training which lasts one year, employers must retain the trainees in salaried employment for at least 12 more months and they must not reduce the total number of employees during that period. Only employers in the private sector are eligible for the subsidies and preference is given to employers who regularly pay taxes and contributions, who have not incurred any debts and who are ready to employ more than one trainee.

In 2009 11,000 trainees were employed within the framework of that programme. As presented at the CPESSEC Conference, roughly 25-30% of the trainees are expected to remain with the same employer after the traineeship period, but the first effects of the programme will become visible by the end of 2010.

Recently the First Chance initiative was presented at the Peer Review of the EC Mutual Learning Programme, where it was concluded that the Programme is an innovation in the Serbian approach to traineeship and so far has had successful indicators. The Peer Review also identified the major problem with the implementation of the programme / limited funding from the state budget, which amounted to Serbian dinar RSD 1.3 billion (about EUR 14 million). The programme attracted great interest from the public, but the resources were insufficient to place all the applicants.

Sources: Information of the Serbian Ministry of Economy and Regional Development

(<http://www.merr.gov.rs/aktivnosti/vesti.php?vestid=13&lang=eng>); Materials of the Peer Review ‘Professional Traineeships for Young Adults’ (Portugal, 19 -20 November 2009), [http://www.mutual-learning-employment.net/uploads/ModuleXtender/PeerReviews/74/Peer\\_Country\\_PaperSerbia\\_FINAL.pdf](http://www.mutual-learning-employment.net/uploads/ModuleXtender/PeerReviews/74/Peer_Country_PaperSerbia_FINAL.pdf)

In Albania with UN and other donors’ support a large scale programme aiming at youth is currently being implemented. Furthermore, the ILO Decent Work Agenda for Albania 2008-2010 launched in September 2008 foresees ILO support for the development of youth employment policy and related national action plans (Box 1.4).<sup>78</sup>

<sup>78</sup> ILO Decent Work Agenda for Albania 2008-2010, p. 8-9  
[http://www.ilo.org/public/english/region/eurpro/budapest/download/dwcp/dwcp\\_albania.pdf](http://www.ilo.org/public/english/region/eurpro/budapest/download/dwcp/dwcp_albania.pdf)

Box 1.4

**Albania: the One UN Joint Programme, Youth, Employment and Migration (2008-2011)** is jointly implemented by ILO as a lead agency, IOM, UNDP/UNV and UNICEF. It was awarded USD 3.3 million by the Spanish MDG Achievement Fund and is developing in the framework of the One UN Programme (the Albanian government and the UN signed the One UN Programme on October 24, 2007). The Joint Programme is providing more employment opportunities for young people and is better aligning national strategies on youth, employment and migration. The programme targets young workers in the regions of Shkodra and Kukes, highly affected by informal employment and youth migration. The programme is funded by the Government of Spain through the MDG Achievement Fund for Youth and Migration.

The work is organized through integrated programmes that combine on-the-job training, with classroom training, whereby youth with disadvantaged backgrounds (normally employed in the informal sector) acquire the skills that enterprises need, as well as more general skills aiming at making them more 'employable' in the labour market. There is also a pilot programme that allows young Albanians graduating in foreign universities to come back to Albania on an internship programme within the private sector.

The groundwork is now in place for the preparation of the National Action Plan on Youth Employment (NAP). The Programme published a manual and methodology for the development of youth employment policy and related national action plans in Albanian for the Ministry of Labour. Technical assistance is provided to the Department of Youth on employment knowledge and in facilitating the setting up of youth employment programmes, taking into account lessons learned from existing social entrepreneurship activities in Kukës and Shkodër regions.

The ILO tool 'Biz UP' was introduced in Albania as a tool for outreach to youth. The Programme conducted a Training of Trainers (ToT) in order to enable a number of Albanian-speaking trainers to reach out to local schools and implement the Biz Up methodology. Work has also started on the development of a methodology to analyse skills needed by enterprises in emerging occupations.

Source: 2008 One UN Programme Annual Report, June 2009 <http://www.un.org.al/editor-files/file/news/AnnualReport.pdf>

In Kosovo the introduction of ALMPs targeted at youth was done mainly with the support of UNDP (Box 1.5).

Box 1.5

**In Kosovo the Active Labour Market Programme (ALMP) for Youth** was launched in 2007 (as expansion of an earlier UNDP Employment Generation Project) and is implemented in seven regions by joint efforts and in close cooperation between UNDP, the Ministry of Labour and Social Welfare, Regional Employment Offices, Municipal Employment Offices, Vocational Training Centres and private sector enterprises. Recently the project has expanded its cooperation to the Ministry of Education Science and Technology. The project is aimed at young registered job-seekers (15-29 years of age) mainly with little or no skills, without prior work experience. The measures are tailored and include on-the-job training, internships, institution and enterprise based training, wage subsidies, vocational training. The project also aims at building the capacity of PES in the provision of services to unemployed. The project supported

4,500 young unemployed, what is on a yearly basis about 13.5% of national total young job seekers.

Number of beneficiaries during the 2005-2008 project implementation:

- Public works projects 2005-2006 – 3,194 (44%);
- On the Job Training (OJT) – 1,426 (19%);
- Pre Employment Training (PET) – 79 (1%);
- Wage Subsidies (WS) – 2,145 (29%);
- Internship Scheme (ISch) – 379 (5%);
- Institution and Enterprise Training (IET) – 54 (1%);
- Vocational Training (VT) – 40 (1%);
- Total Beneficiaries Jan 2005 to Dec 2008 – 7,317 (100%).

In 2008 an external evaluation of the project was conducted, which concluded that the project doubled the chances of disadvantaged youth in finding employment. Overall, the programme generated a positive benefit. Of the major constraints remain to be limitations of human and financial resources for PES administration.

Source: Active Labour Market Programme for Youth. Progress report. UNDP. 2008; information available at UNDP web site <http://www.ks.undp.org/?cid=2,91,779>

In the former Yugoslav Republic of Macedonia the issue of youth unemployment is addressed in the NAPE 2009-2010 as 'a renewed endeavour to build employment pathways for young people and reduce youth unemployment, as called for in the European Youth Pact', but the achievements so far are marginal. A cornerstone of the activities planned is to carry out 'an individual employment action plan for each newly registered young person'. The PES has set the objective to draw up individual action plans (IAPs) with all new job seekers. This has started with more than 4000 IAPs in 2007.

### 3.5.3 *Targeting the vulnerable – programmes for people with disabilities*

Activation policies (and ALMPs as the key component of activation) have among their goals helping to achieve greater equity by supporting more disadvantaged labour market groups, creating more income and employability security for them as well as promoting social inclusion. In times of socio-economic and labour market changes and especially in the context of the current crisis this objective gets priority (as reflected in the crisis responses of individual WBCs). Measures for the disabled, consisting of financial incentives for firms to hire disabled workers on a priority basis or the establishment of employment quotas for this group of workers, are also aimed at overcoming discrimination in the labour market.

Recently, the WBCs in line with accession requirements adjusted their legislation to provide more sound support to persons with disabilities, but still allocation of funds is very limited and the employment outcomes of the measures aimed at this group are low.

In the former Yugoslav Republic of Macedonia, after passing the *Law on Employment of Disabled Persons* and the establishment of the *Special Fund*, financing the activities aimed at improving the conditions for employment and work of disabled people, there was an increase in activities aimed at the inclusion of persons with disabilities in the labour market<sup>79</sup>.

According to the official data from the Employment Agency of the Republic of Macedonia, in the end of 2007 there were 2,251 unemployed disabled people registered with PES and 2,099 in 2008. The Union of sheltered enterprises of the former Yugoslav Republic of Macedonia is maintaining the data on registered sheltered (protective) enterprises, established in accordance with the Law on Employment of Disabled Persons, as well as the data on the number of disabled people employed in these enterprises and in the open economy. According to the Union data in 2008, there were around 740 sheltered enterprises in the country, which employed 3,500 people with disabilities. The number of people with disabilities employed in the 'open' economy or public administration (not in sheltered enterprises) is around 700.

In the former Yugoslav Republic of Macedonia the biggest share of expenditures on active labour programmes is spent on wage subsidies for the integration of the disabled, 114 million Dinars (slightly over a million Euro) in 2007 (over 50 per cent of the total budget on ALMPs) but only 267 individuals got support from the programme, with the unit cost of 428,000 Dinars (roughly 4,000 Euro) per beneficiary.<sup>80</sup>

In Montenegro the programme of Professional rehabilitation of people with disabilities was initiated in 2008 after the adoption of the Law on Professional Rehabilitation and Employment of Persons with Disabilities. Professional rehabilitation encompasses the following activities: career guidance, motivation, vocational training, adjustment of workplaces to people with disabilities, expert assistance in inclusion in the work place, etc. The Law introduced a system of quotas for employment of people with disabilities (employers with 20 to 50 employees need to employ at least one person with disabilities, while employers with over 50 employees have to employ at least 5% of people with disabilities, out of the total number of employees). Employers who have not engaged a person with disabilities are obliged to pay a special contribution for professional rehabilitation and employment of people with disabilities. The contribution amounts to 20%

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<sup>79</sup> See: Council of Europe '1st report on the implementation of the European Social Charter submitted by The Government of the Republic of Macedonia, Cycle 2008, [http://www.coe.int/t/dghl/monitoring/socialcharter/reporting/statereports/FYROM1add\\_fr.pdf](http://www.coe.int/t/dghl/monitoring/socialcharter/reporting/statereports/FYROM1add_fr.pdf)

<sup>80</sup> See World Bank (2008), 'Active Labor Market Programs in FYR Macedonia', Policy Note, Report No. 45258-MK, September 2008.

of the average wage in Montenegro for the previous year, while employers with up to 5 employees pay 1% of the average wage, and employers with 5 to 20 employees 5% of the national average wage. This contribution is paid on a monthly basis and funds are used for professional rehabilitation. This measure accounts for only a small part of the total ALMP budget, but allocation of funds to this programme significantly increased in 2009 compared to 2008 (from 0.3% of total ALMP spending to 4.8% in 2009).

In Serbia the implementation of the programmes aimed at people with disabilities was stimulated by the Law on professional rehabilitation and employment of people with disabilities which was introduced in 2009 (but there were measures aimed at this group earlier as well). The number of people with disabilities registered with PES is not very high, around 22,000 at the end of 2009. People with disabilities are included as a target group in the majority of PES programmes. Although the plans are not always fully realized – as it was the case with trainings in 2009 which were only partially implemented (62%) due to insufficient quality of services by training providers – the figures below confirm that the share of clients brought to employment after participating in active measures is very low (Box 1.6).

Box 1.6

**Serbia: Participation of people with disabilities in ALMPs:**

- from the total of 7,993 that concluded individual employment plans, 598 got a job;
- from 1,298 who participated in job fairs, 128 got a job;
- from 79 who participated in job clubs, 4 found a job;
- from 349 who attended active job search trainings, 42 found a job;
- from 135 who attended trainings of self-effectiveness, 6 found a job;
- from the total of 217 who participated in trainings, 21 got a job.

In Croatia, the PES and the Fund for Vocational Education and Employment of Persons with Disabilities implement measures in accordance with the NEPP (2009-2010), which specifies the programmes for vulnerable groups and persons with disabilities in particular. NEPP introduces a new project to be carried out by PES ‘Encouraging more intense activation of persons with disabilities in the labour market’ being aimed at different sub-groups of unemployed with disabilities as well as at employers. Furthermore, the above mentioned Fund is implementing measures providing ‘employment subsidies’ and incentives to retain people with disabilities in employment.

#### 3.5.4. *The Gender dimension of activation*

At present, mechanisms to promote gender equality are still weak throughout the Western Balkan region as men dominate political life and gender inequalities occur in leadership, decision making, employment, income generation, education etc. Though, historically

considered, the Balkans enjoyed relative advances in terms of gender equality in the socialist period due to governments' efforts to promote political participation, secure universal access to basic health care and education, as well as an emphasis on employment, both as a right and a duty for both sexes.

Women's labour market participation, however, declined at the beginning of the transition, partly due to the closure of state enterprises where women were previously employed, but has since recovered to some extent, although it remains low. Also the quality of employment has changed following the transition period: many women have moved into unpaid caring professions and many have become self-employed, often out of necessity, although there are still much fewer female than male entrepreneurs as they have less access to loans and micro-credit because they often lack the required guarantees. Furthermore, women, particularly young women, are more often in low-quality, part-time and fixed-term jobs than men. Many women work in the informal sector.

Thus, there are still major challenges to gender equality present in the Western Balkans. Female participation rates are particularly low among certain ethnic groups (partly for cultural reasons). Women from minority and /or vulnerable groups are exposed to multiple discrimination and marginalization. These groups include the Roma, refugees and IDPs, single mothers, women with disabilities, elderly women, women in rural areas, lesbians and women suffering violence.

In some countries the gender gap concerning (in)activity and employment rates is substantial (see the tables further below). Active employment programmes targeted at women (often belonging to a specific category, e.g. in Albania the Employment Promotion for unemployed women which aims to integrate marginalized women such as Roma and old and disabled women) do exist, but they are often small scale and their outcomes uncertain.

### *Female Employment rates*

The employment rates of women are low in all Western Balkan countries, but dramatically low in Kosovo (13% female vs. 40% male) and Bosnia and Herzegovina (24% female vs. 43% male). On the other side of the scale, Croatia (51% female vs. 62% male employment rate) and Albania (44% female vs. 64% male) are the best performers, although they are still falling short compared to Bulgaria, Slovenia or the EU27 average (see the Figure 1.3 below).

The comparatively high female employment rate for Albania can be explained by the fact that most women were contributing family workers (48%)<sup>81</sup>. Further job opportunities for

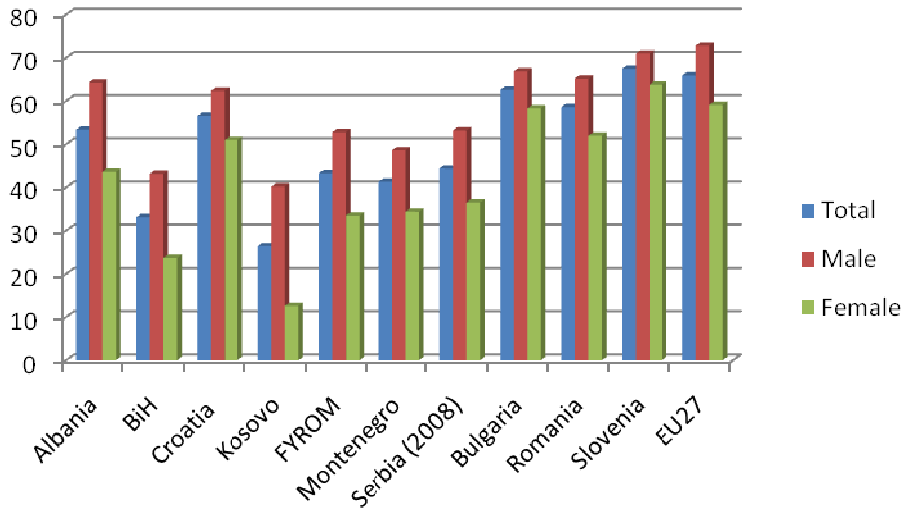
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<sup>81</sup> ETF report (2010): Albania – Review of Human Resources Development, p.56.

women in Albania are mostly restricted to the education, health and social services sectors.

Figure 1.3

**Employment rates as percentage of the employed in the working-age population, 2009**



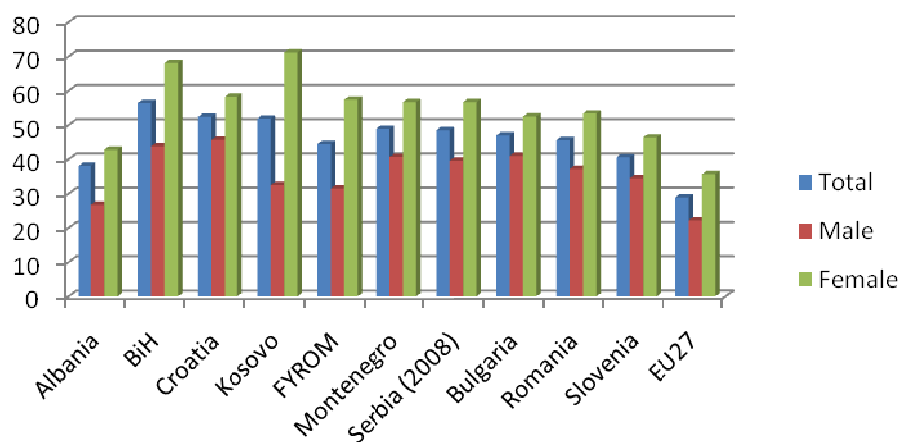
Source: LFS 2009 data

*Inactivity and barriers to the labour market for women*

All Western Balkan countries have high inactivity rates and markedly higher ones for women than for men (Figure 1.4). More than two thirds of the women in Bosnia and Herzegovina are inactive, in Kosovo even almost three quarters. In the remaining Western Balkan countries female inactivity rates range from 56% to 58% and are thus somewhat comparable to the rates in Romania and Bulgaria (around 53%), but still much higher than the EU27 average (36%).

Figure 1.4

**Percentage of inactive population in the working-age population**



Source: LSF 2009 data

Women in the Western Balkans face many barriers when it comes to labour market participation, these include:

- *Traditional family models* often still prevail, placing less value on women employment and education for girls compared to boys. This is particularly true for some ethnic groups within countries, such as the Roma population or for instance Albanians in the former Yugoslav Republic of Macedonia.<sup>82</sup>
- *Care responsibilities and the lack of care facilities and services:* Women have still the role of being the sole caretakers of children, the elderly and the household. Furthermore, childcare arrangements (but also facilities for the disabled or elderly people) have become far more costly following the transition period and the number of places much reduced so that women face greater barriers – both practical and financial – to participate in the workforce.
- Employment opportunities for females are often diminished by *lack of flexibility in the formal labour market* (e.g. lack of part time jobs).
- Often, *increase in job opportunities* is primarily taking place in *male-dominated occupations*, such as construction and trade.
- *Gender stereotypes* play a major role, since women and men usually still follow traditional education and training paths which frequently place women in occupations that are less valued and remunerated. Women work much less in technical fields, despite labour market shortages. Most labour market training programmes are characterized by male-dominated occupational profiles, limited information about non-traditional occupations and rigid training timetables.
- *Lack of skills:* Particularly women previously employed in the agricultural sector who migrate from rural to urban areas lack the skills required by the new economy (as it is for instance evident in Serbia). Important ALMM, therefore, would be the up- and re-skilling of women migrants from rural areas.
- *Poor education:* Women's employment is skewed towards those with tertiary level education, while poorly educated women are more likely to suffer from unemployment or to remain inactive. However, even well educated women experience disadvantage in the labour market, this can be seen for instance in Serbia and Montenegro. In Montenegro these gaps can partly be explained by the extensive maternity leave provisions in the labour law (for example, one year's paid maternity leave), the lack of available part-time jobs (only 4.5% of all jobs are part time) and the lack of childcare facilities as well as that there are no gender-specific labour market measures or gender mainstreaming policies in place.<sup>83</sup>

For further details on the former Yugoslav Republic of Macedonia see Box 1.7.

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<sup>82</sup> See: ETF report (2008): Barriers to labour market participation of women in the former Yugoslav Republic of Macedonia.

<sup>83</sup> ETF report (2010): Montenegro – Review of Human Resources Development, p.36.



Box 1.7

### **Qualitative data on barriers to the labour market for women in the former Yugoslav Republic of Macedonia**

In the former Yugoslav Republic of Macedonia, quantitative surveys investigating the barriers for women to the labour market point to slow school-to-work transitions, low educational levels, residence in rural areas and ethnic background as major factors influencing inactivity.

Qualitative surveys additionally point to lacking jobs and irregular employment practices:

- Hiring practices that tend to discriminate against women in job interviews on grounds of age, marital status, physical appearance or ethnic background (particularly in the case of Roma, Albanian and Turkish women);
- A general sense of discouragement or women's lack of belief in the possibility of finding a suitable job, which is linked to the general shortage of jobs, irregularities in the allocation of jobs (nepotism) as well as employers' non-compliance with existing labour regulations;
- Women undertaking unpaid work at home, which is linked to the traditional role of women in the family and the household and care tasks assigned to them;
- Sources of household income other than from work.

*Source:* ETF report (2008): Barriers to labour market participation of women in the former Yugoslav Republic of Macedonia

Women are a substantial share of the available human capital and, as can be concluded from the brief overview given here, there is a need to pay far more attention to activation measures targeted at women (or specific groups of women) since women's participation and employment can constitute a major driving force of the labour markets and contribute to economic growth.

## **3.6 Types of ALM measures in use**

### *3.6.1 Considerations for ALMP portfolio choice*

When the resources are very limited (as it is currently the case in WBCs) the choice of policies has to be carefully considered taking into account the costs, as well as the potential effectiveness of measures under consideration.

The most commonly used active labour market policies in the EU Member States are:

- Job brokerage, counselling, job search assistance (those services are part of PES core activities, but since recently have started being referred to as active labour market measures);
- Training;
- Employment incentives;
- Start-up schemes;
- Direct job creation, public works.

Among them only **job brokerage** is considered to be relatively cheap and at the same time highly effective (Table 1.10). As emphasized by the OECD, according to international experience, **job counselling** activities are not only cost-effective, but also crucial for the efficiency of more expensive ALMPs that should be targeted according to careful assessment of individual needs, which in practice depend on contacts between clients and counsellors.<sup>84</sup> But of course job brokerage only works well under certain general conditions. Matching jobs for unemployed can only work when vacant jobs exist in the economy. Furthermore, the match requires the presence of particular skills. If new jobs are not generated and job seekers do not have adequate qualifications, all matching efforts of PES will be failing. The results from some evaluation studies indicate that in countries with large informal job sectors, workers themselves tend to prefer other means of job search and do not rely on PES support.<sup>85</sup>

Table 1.10

**Effects of ALMPs (experience of EU countries)**

<b>Intervention</b>	<b>Overall impact</b>	<b>Conditions that improve the outcomes</b>
Job-search assistance (job brokerage and counselling)	Rank high among more cost-effective measures. Assessments confirm significant positive impact on the transition from welfare to work.	Good balance between the carrot (i.e. job search and counselling) and stick components (i.e. monitoring and sanctions to ensure compliance with job-search requirements). When linked with participation in other programmes, such as training.
Labour market training	Impact in terms of raising the future employment and earning prospects of beneficiaries are rather mixed. More likely to have positive effects for specific target groups (women re-entering the labour market, educated migrants,). Likely that there is some long-term positive impact.	Well targeted trainings (at certain disadvantaged groups); small scale; implemented in close partnership with local employers; recognition of training certificates.
Employment incentives: (a) Subsidies to employers and (b) Start-ups	(a) Evaluations suggest that it might be cost-effective to target employment subsidies at special groups of unemployed (long-term, etc.) (b) Start-up seem to help only minority of unemployed, namely relatively young men with good motivation and adequate skills	Ensure close monitoring of firms' behaviour in order to curb potential misuse. Combine start-ups with training and counselling.
Direct job creation	Compared to other active measures very rarely reveal positive results, not successful in raising employment probability. Might have positive social impact by avoiding social exclusion	When equity considerations are given priority and direct job creation is used it has to be of short duration and targeted at the most disadvantaged groups.

*Source:* This table is based on the 'Employment in Europe 2006' report prepared by the Directorate-General for Employment, Social Affairs and Equal Opportunities in close collaboration with Eurostat, and in particular on the conclusions concerning the results of particular types of active measures drawn in Chapter 3 of the report: Effective European Active Labour Market Policies. Available at: <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1031&context=intl>

<sup>84</sup> OECD 'Serbia – A labour market in transition', OECD Reviews of Labour Market and Social Policies, 2008

<sup>85</sup> Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009, p.11.

**Employment incentives, start-up schemes, and direct job creation** (public works) are all assessed as relatively expensive ones, while **training** is even referred to as being 'very expensive'. As for the effectiveness<sup>86</sup>, evaluation research demonstrates rather controversial results concerning training programmes, employment incentives and start-up schemes, while conclusions concerning direct job creation (public works) clearly point at ineffectiveness of this measure, although it might help reducing poverty in the period of participation in the programme.

For the purposes of the current study it is worth consulting the conclusions of evaluation studies on ALMPs in transition economies. As reported by a recent USAID research<sup>87</sup> in transition countries the following outcomes for key active measures are registered (on the basis of 152 impact evaluations):

- *Impact on employment probability:* job search assistance and brokerage (employment services) and skills training have the most positive impact. Results for direct job creation (public employment programmes) are mixed; employment incentives subsidies are overwhelmingly negative. There is not enough information about start-up programmes.
- *Impact on earnings:* practically all interventions had non-positive results, with an exception of job brokerage, where the outcomes were mixed.

The published data and information concerning active labour market measures in the WBCs is rather scarce and fragmented. On the basis of available documentation it can be concluded that, with some exceptions, the scope and the portfolio of active labour programmes in WBCs is rather limited and the share of unemployed involved in those measures is low (Table 1.11).

Table 1.11

**Number of Participants in Active Employment Policy Measures (2008)**

Types of active measures	AL	BiH	HR	MK	ME	KS	RS
Career guidance and counselling			166,501*	26,376**	168,424	6,937	746,952
Additional education and training	1,095	345	3,466	7,529	4,843	3,240	10,030
Employment programmes and entrepreneurship development	1,564	2,600	3,350	2,692	1,296		48,555
Public works			715		1,190	2,162	10,184
Employment of target groups		4,481	351	545	40,575	510	11,128

\* Figure taken from Kuddo 2009, p. 83.

\*\* Another 22,062 participants are mentioned to have participated in Job clubs.

Source: CPESSEC Statistical Bulletin July 2009 and national experts.

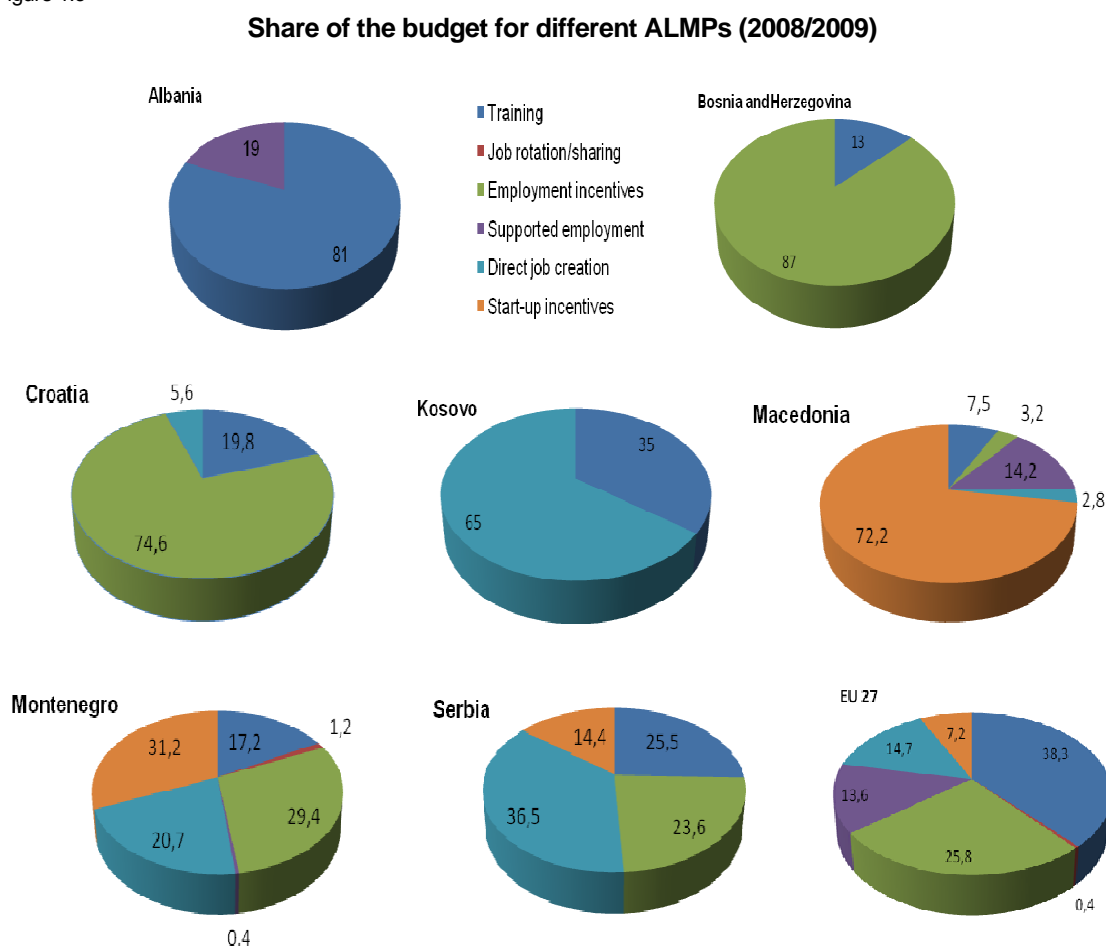
<sup>86</sup> The measure is considered effective if the average employment or reemployment probability of a person participating in the measure is increased.

<sup>87</sup> Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009, p. 9-10.

In some countries as in BiH there is no transparent data on the active employment policy measures, however, some available data show that only a small share of unemployed persons are involved (Albania only 1,5% of registered unemployed, the former Yugoslav Republic of Macedonia less than 2%, Croatia 2.4%, Kosovo 3.8%).

In some WBCs – most notably in BiH and Croatia – there is an emphasis on *employment incentives* (wage subsidies to employers to create new jobs but also to maintain existing ones), whereas Macedonia heavily relies on *start-up schemes*. In Albania more than 80% of the budget for ALMPs is spent on training and Kosovo allocates most ALMP resources to direct job creation. Serbia and Montenegro, on the other hand, have a more equal mix of training, employment incentives, direct job creation and start-up schemes (Figure 1.5). Also within countries there are significant differences in the share of expenditures allocated to different active labour market programmes among their regions (e.g. BiH). At the same time there are signs of increased dynamism in introducing new types of ALMPs in recent years in some countries (like in Serbia in relation to new programmes for youth).

Figure 1.5



Source of data: For Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia see Kuddo (2009), p. 82. For all other WBC countries, contribution of national experts, 2009 data, for EU-27 Eurostat 2007 data.

Simpler and more cost-effective programmes, called 'employment services' or 'job search assistance' (encompassing job-search, counselling and other basic job brokerage functions), which are known to have a large impact for a relatively low cost, are not very developed in the PES of WBCs. Typically these services form a part of the PES core activities and related expenses are included in the PES overall administrative costs. Although recently in the literature job matching activities have started being referred to as active measures<sup>88</sup> or sometimes so called 'soft' ALMPs they are discussed in more detail in the chapter on PES (chapter 2).

### 3.6.2 Training

Training programmes aiming at those who already left the formal schooling system can play an important role in mitigating skill mismatches, filling in the shortages in specific sectors and enhancing human capital. Unemployed workers often do not have the skills that the companies are looking for. In this situation training (re-training, upgrading) measures might become a good cure as they improve the skills of unemployed in the direction requested by the labour demand. The design of the programmes varies considerably from those that develop basic job readiness (language courses, basic computer courses, etc.) to much more comprehensive schemes that equip the participants with particular competences and include classroom training or on-the-job training. The programmes are provided either by public or private training institutes and are directly funded or subsidized by PES. Training programmes constitute the 'classic' measure of active labour market policy.

Training programmes are the most widely used active labour market measure in Europe.

In Europe, **training programmes** accounted for the largest share of EU ALMP expenditure, i.e. 41%, followed by the employment incentives with 24% of the EU-27 total. However, there are significant country variations. Training is the most used measure in Austria, Norway, Greece, Portugal and Estonia, where more than 50 % of ALMP budget is allocated for training (with the highest 86% in Austria and 74% in Estonia), followed by Ireland and Italy (above 40%) and France, Denmark, Germany, Sweden and Poland (above or very close to 30%). The Netherlands, Slovakia and the Czech Republic used training the least – about 10% of the total spent on LMP measures<sup>89</sup>.

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<sup>88</sup> For example, Jochen Kluge proposes to slightly redefine standard 'Job-Search Assistance' category by including sanctions and introduce 'Services and Sanctions' category, which encompasses all measures enhancing job search efficiency. It is believed that the overarching objective that all these measures – including job search courses, job clubs, vocational guidance, counselling and monitoring, and sanctions in the case of noncompliance with job search requirements – share, justifies this classification: all are geared towards increasing the efficiency of the job matching process (see: Kluge J. 'The Effectiveness of European Active Labour Market Policy', 2006

<sup>89</sup> See: Barković I. 'From Employment To Employability: The Role Of Active Labor Market Policies In Croatia, <http://www.efos.hr/repec/osi/journal/PDF/InterdisciplinaryManagementResearchV/IMR5a33.pdf> p.404 and Meager N. 'The Role of Training and Skills Development in Active Labour Market Policies', International Journal of Training and Development 13:1, 2009, p. 7, <http://www.employment-studies.co.uk/pdflibrary/wp15.pdf>

But in recent years the share of resources allocated to training has been declining, while the share devoted to job search assistance, job brokerage and guidance has increased. This tendency is observed in the majority of the European countries and may partly be explained by the fact that it became known from evaluation literature that training measures are particularly expensive.

The evaluations of training programmes demonstrate rather controversial results concerning their impact<sup>90</sup>. Already in the 1990s it was concluded that large scale, traditional training measures targeted at the unemployed were generally ineffective. Recent evaluation research pays more attention to longer-term impact of training measures. There are indications that positive treatment effects of training exist in the long run, allowing some researcher to conclude: 'Indeed, it appears that many programmes with insignificant or even negative impacts after only a year have significantly positive impact estimates after 2 or 3 years. Classroom and on-the-job training programmes appear to be particularly likely to yield more favourable medium-term than short-term impact estimates.'<sup>91</sup>

The evaluations of training programmes in transition countries suggest that narrowly targeted and small-scale programmes addressing well-identified needs of both the unemployed and the employers tend to have a positive net impact. On the contrary broadly targeted large-scale trainings have little impact (as elsewhere). On-the-job training provided by private firms has proven to be particularly effective.<sup>92</sup>

At the same time it is known that training measures risk producing undesirable effects: 'crowding-out' (when those who are trained may simply displace those who are not trained or who have lower skill levels) and 'creaming' (when already from the beginning the most 'employable' job seekers are selected for the programme; sometimes it happens under growing pressure to achieve high placement rates of trained unemployed) and 'deadweight losses' (when measures are applied to those already in employment, like training for known employer).

In none of the WBCs training dominates in the present ALMP mix, in contrast to what can be observed in some of the NMS (Estonia – 86% of ALMP budget is allocated to training, Latvia – 60%). Among WBCs Serbia has the highest share of training activities in the overall ALMP budget – one quarter, Croatia, Albania and Montenegro are close to 20%, while the former Yugoslav Republic of Macedonia has a very modest spending of less than

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<sup>90</sup> See detailed overview of evaluation approaches and evaluation results for training in: Nigel Meager 'The Role of Training and Skills Development in Active Labour Market Policies. International Journal of Training and Development 13:1, 2009 '<http://www.employment-studies.co.uk/pdflibrary/wp15.pdf>

<sup>91</sup> David Card Jochen Kluve Andrea Weber 'Active Labor Market Policy Evaluations: A Meta-Analysis', IZA Discussion Paper No. 4002, 2009, p.25.

<sup>92</sup> Kuddo, A. (2009) 'Employment Services and Active Labor Market Programs In Eastern European and Central Asian Countries', SP Discussion paper No. 0918, p.51.

10%, what is comparable to Bulgaria, Slovakia, Czech Republic with about 10-13%.<sup>93</sup> Relatively low share of training might be explained by the fact that those measures are rather expensive in terms of costs per participant.

#### *Types of training programmes used.*

The variety of ALM training programmes encompasses: institutional training (public or private providers), on-the-job training, alternative training, apprenticeship training or some mixed forms that combine above mentioned types of training. WBCs have different preferences concerning the programmes.

According to a detailed assessment of ALMPs in 2007-2008, Croatia was oriented at 'trainings for known employer' which are co-financed by PES and 'trainings for unknown employer' fully financed by PES<sup>94</sup>. Among the latter there are programmes targeted at all unemployed registered at PES for more than 12 month, or at young unemployed (up to 25 years of age) who are for more than 6 months on the register, or at unemployed willing to take jobs in particular sectors (like shipbuilding or construction). There are similar programmes aimed at the Roma minority. The PES considers 'trainings for unknown employer' carried out in 2006-2007 a good example of a measure that worked well since the majority of unemployed participating in training managed to find jobs afterwards (about 80% of participants in one county and almost 100% in another). Training organized for the Roma minority demonstrated much lower levels of job placements, but is still regarded by the PES as successful<sup>95</sup>. Difficulties in implementation are related to the rule which does not allow combining training measures with employment incentives schemes, as well as to restrictions on training for certain occupations, which do not meet eligibility criteria. Among all ALMPs training programmes suffered the most from discontinuity of implementation related to annual budgetary planning procedure (funds are not available between November each year and March-April the following year when the state budget is approved).

In Montenegro, where the training component of the ALMP portfolio is rather solid and was developing throughout the whole decade, there are two main schemes: (a) 'Training for the labour market' and (b) 'Training at the request of employers'. 'Training for the labour market' provides general skills to the labour force (IT training, language training, obtaining driving license), as well as vocational training for work in the manufacturing industry (metal processing, food processing, etc), agriculture, constructing, tourism and catering, etc. On

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<sup>93</sup> Kuddo, A. (2009) 'Employment Services and Active Labor Market Programs In Eastern European and Central Asian Countries', SP Discussion paper No. 0918, p.50.

<sup>94</sup> This information is based on a detailed assessment of ALMPs in Croatia carried out in 2007-2008 by GVG (2008), 'Evaluation, design of recommendations, capacity building and grant scheme management in the field of active employment measures in Croatia', Final report 18 November 2008.

<sup>95</sup> GVG (2008), 'Evaluation, design of recommendations, capacity building and grant scheme management in the field of active employment measures in Croatia', Final report 18 November 2008 p 76.

average, the number of participants in this programme is 4,000 per year. 'Training at the request of employers' is aimed at meeting specific needs for labour when there is no corresponding supply. In that case employers can apply via the PES for such support, and the PES organizes training of people from the register in specific skills required by the prospective employer. This programme potentially results in employment of people who have undergone successfully the training programme. Although regular evaluation is not yet a common practice in Montenegro, the general assessment is that 'Training for the labour market' has very limited results. Among possible reasons for poor performance are:

- Poorly elaborated concept of the active programme, since the design and delivery of the programme is assessed based on general perception on which kind of skills are required by the potential employers;
- Quality of the trainings provided;
- Lack of established capacity of external service providers to implement certain programmes;
- Difficulties with identifying and involving participants;
- Lack of motivation and interest from the participants.

In Albania the collaboration between enterprises and Employment Offices for the training of unemployed job seekers intensified since 2008 and was notably higher than in previous years (on-the-job training at private enterprises). The Employment Promotion Programme contains two training measures:

- *'Workplace training for unemployed job seekers'*: employers who provide training and employ a trainee for at least one year are offered a subsidy to support the costs of training for the nine months of training.
- *Institutional training*: training is provided for (i) companies that guarantee employment after completion of the training, (ii) companies that can demonstrate that training would be useful for the participants.

However, monitoring and assessment of the impact of such programmes are still lacking.

### 3.6.3 *Employment incentives*

Usually employment incentives programmes involve wage or job subsidies or exemptions to employers' social contributions. The objective is to encourage employers to hire new workers or to maintain jobs that would otherwise be cancelled. It is believed that employment incentive schemes when carefully designed and targeted at selected groups of participants, might form a bridge until the economy can generate more regular jobs on its own. Employment incentives are, by international comparison, among the least cost-effective ALMPs, especially for addressing long-term and other hard-to-place unemployed (although they are often targeted at those groups).



When considering this measure decision makers have to bear in mind its relatively high costs and mixed (controversial) outcomes in terms of effectiveness. Evidence from evaluations of this measure in a transitional context mainly illustrates non-positive employment effects. Further, according to the evaluation literature, employment incentives are unlikely to have longer-term impacts on employment, given their short-term focus<sup>96</sup>.

Employment incentives can have a number of unintended outcomes: 'substitution effect' when subsidized workers are replacing regular workers, so that the net employment effect is zero; 'dead weight' effect, or so called 'windfall benefits' to some employers who anyway would have hired workers in the market to fill vacancies but under a subsidy can hire at no costs or a much-reduced rate; and lock-in effect when long-term subsidies lower or block the job search activities of workers, who benefit from subsidies, and prevent them from finding regular employment.

The **employment incentives** also play one of the key roles in the ALMP portfolio of the European countries, receiving about 20% of the total EU ALMP budget. They turn to be the most important measure in Cyprus (62%) followed by Luxembourg, Romania, Spain, Sweden and Hungary, where percentages are ranging from 50% and more. On the other end of the scale are Germany, Estonia, Ireland and Norway with percentages of less than 10% of expenditure on LMP measures<sup>97</sup>.

Available information confirms that employment incentive programmes are actively used by WBCs. It is the most widely used measure in BiH, Albania and Croatia, where more than three quarters of the ALMP budget are allocated to employment incentives (in BiH basically all measures implemented in 2009 belonged either to this category or to the start-up category), it absorbs almost one third of the budget in Montenegro and almost one quarter in Serbia. In contrast, in the former Yugoslav Republic of Macedonia it plays a very small role accounting only for 3% of the funds. Albania recently also introduced incentive schemes in the framework of the Employment Promotion Project. Companies providing employment to job seekers on a temporary basis (3–6 months) receive up to 100% of the minimum wage and are reimbursed for social insurance contributions. In some cases as in BiH it is required that the employer keeps participants employed for a certain period (12-24 months).

The evaluation of employment incentive schemes implemented in 2006-2007 in Croatia gives a rather mixed picture, which is going in line with international evaluation research. Taking the form of employment subsidies those programmes target different groups of unemployed: long-term unemployed (more than 12 months); unemployed women over 45

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<sup>96</sup> Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009, p.13

<sup>97</sup> See: Barković I. 'From Employment To Employability: The Role Of Active Labor Market Policies In Croatia, p.404

and men above 50 years of age; 'hard-to-place' disadvantaged groups; Roma unemployed; young people without previous work experience.

While in Croatia implementation difficulties are related to the rule which does not allow combining employment incentives schemes with training measures, Serbia recently started combining those instruments. In the framework of the 'Additional Education and Training' measure for youth implemented by PES, subsidies for employers with traineeships/apprenticeship programmes are delivered in one package. Subsidies are provided to employers who, through an open tender, compete to contract young unemployed (below 30 years of age). The traineeships/apprenticeship programme lasts 6-24 months, depending on the trainees' level of education. Apprentices are obligatory contracted by the employer through an open ended contract, while trainees do not receive a contract and are supposed to improve their skills and competences via on-the-job training<sup>98</sup>.

In Montenegro the employment incentive schemes mainly orient on exemptions to employers' social contributions and taxes. Since 2008 the employers engaging unemployed from one of the hard-to-place categories (i.e. people with disabilities, people aged over 50 years, people registered for over five years in the PES register, redundant labour from privatized companies, seasonal workers, beneficiaries of the unemployment benefit, which have over 25 years of working experience) are relieved from payment of the employer's share of social security contributions and 80% of personal income tax. As the measures are not monitored and have no evaluation follow-up, it is difficult to assess their impact.

As the portfolio of ALMPs in BiH seeks to encourage employers to create more jobs and recruit unemployed people through loans, grants and subsidies, the monitoring of how the financial support was used by beneficiaries is very important. The loans were provided by the Development Banks in cooperation with the PES, and those who received these loans were obliged to create new jobs for unemployed people. The monitoring focuses on controlling the regularity of repayment of loans. But, often these loans were repaid either irregularly, with delays, or not at all.

#### 3.6.4 *Start-up schemes*

**Start-up incentives** are intended to promote entrepreneurship by encouraging the unemployed to start their own business or to become self-employment. The measures of this type aim at helping the unemployed to develop entrepreneurial skills, they also provide financial and advisory support. Conditions vary: participants may receive assistance to set up their businesses as a lump-sum payment or periodic allowances, often supported by training, counselling, and advice in developing a business plan. Based on international

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<sup>98</sup> See the details in: How to enlarge and make best use of the existing traineeship programme in Serbia under budget constraints? Paper by Ljubica Spiric in the framework of the Peer Review 'Professional Traineeships for Young Adults' 19-20 November 2009.

experience, the programmes achieve good results when targeted at the high-skilled segment of unemployed.

Overall in Europe this intervention is relatively small, accounting for around 6-8% of EU-27 expenditure on labour market measures. Such countries as Denmark, Ireland, Latvia and the Netherlands do not use it at all, while in Slovakia the start-up incentives are the second most important type of active intervention accounting for 31% of expenditure. Relatively high percentage was recorded in Germany and Cyprus, i.e. 19% and 18% respectively.

Start-up incentives and support for self-employment are included in ALMP portfolios of WBCs and in some countries, like the former Yugoslav Republic of Macedonia, play the dominant role with 72% of ALMP budget allocated to this measure. In Montenegro self-employment loans are used already for the whole decade and receive one third of the budget, while Serbia (with 14% of the budget) puts less emphasis on this instrument. It is noteworthy that women tend to be underrepresented in the schemes of entrepreneurship development (for example, in the former Yugoslav Republic of Macedonia).

In 2008 the government of the former Yugoslav Republic of Macedonia introduced an additional 'active programme' – start-up incentives (nationally called self employment through low-interest loans, similarly to Montenegro) funded through the state budget. About 500 persons were supported to become self-employed. In 2008, an additional self-employment scheme with micro credits resulted in another 2050 start-ups; and thus continued.<sup>99</sup>

In Montenegro the credit line for self-employment was among the first active measures launched at the end of the 1990s. Since then it was redesigned on several occasions in terms of amount, target groups and additional request. The programme was reformed in terms that in addition to loans for job creation it also provides training for beneficiaries of this programme. It has been changing as well in terms of target groups, for example during one year the focus was on female unemployed, later projects from specific industries (agriculture, tourism) had priority. Currently the amount of loan for one job post is EUR 5,000, while the maximum amount of loan is EUR 15,000 per three posts. The loan is approved for three years with one year as a grace period. This programme was originally focused solely on self-employment programmes and the amount of loan was approximately EUR 3,000 per one job, but now it aims at the creation of new jobs and businesses. If other types of active measures in Montenegro are not monitored and evaluated, the start-up schemes are followed and more carefully controlled to check how

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<sup>99</sup> See the details in: ETF country analysis: Former Yugoslav Republic Of Macedonia, ETF 2009.

the loans are used by the beneficiaries. The last evaluation done in 2009 indicated that 3% of loans were misused and spent for other purposes than job creation.

In 2008 the Government of Montenegro and the PES launched a revised self-employment programme in which the size of the loan was increased from EUR 3,000 to 5,000 per job. The loan conditions are as follows: (i) the amount of loan per employed worker is EUR 5,000 (for up to three jobs and a maximum amount of EUR 15,000); (ii) the grace period is one year, the repayment period is three years for unemployed individuals and two years for small companies and entrepreneurs; and (iii) the annual interest rate is 3%. From 1999 to June 2009, the number of approved loans was 9,779, and the total amount of approved loans for that period was EUR 50.5 million, while 15,779 jobs were created<sup>100</sup>.

There are examples of programmes which failed producing sustainable results and turned out to be not successful. The self-employment of demobilized soldiers in Bosnia scored very low on the criteria of business 'survival'. According to PES the main reason for this was that the provision of financial support for new businesses was not linked to appropriate training, counselling and advice on how to start and remain in business. This example confirms the general conclusion that inappropriate targeting and design lead to poor outcomes.

### 3.6.5 *Public works*

These measures use public money to create community and similar non-market jobs (usually those jobs are not close to the ordinary labour market) for the unemployed and aim at the increase of labour demand and the prevention of human capital deterioration during long periods of unemployment. These measures are mainly targeted at the most disadvantaged individuals in order to keep them in contact with the labour market. Public work programmes are considered temporary initiatives that utilize the lowest skill levels.

In Europe **Direct job creation** measures account for 14.1% of total expenditure on LMP measures. They are the most used instruments in Bulgaria (74%), Slovenia (41%), Belgium (40%) and Slovakia (38%). Direct job creation is the least significant measure in Italy and Poland with only 5% of active expenditure, while it is not used at all in Estonia, Cyprus, the Netherlands and Sweden.

Evaluation research concludes that the public sector jobs programmes are generally less successful than other types of ALMPs<sup>101</sup> and have little success in helping unemployed people obtain permanent jobs in the open market. The studies conducted in transition economies confirm the conclusion that public employment programmes have had

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<sup>100</sup> Kuddo, A. (2009) 'Employment Services and Active Labor Market Programs In Eastern European and Central Asian Countries', SP Discussion paper No. 0918, p.59.

<sup>101</sup> David Card Jochen Kluve Andrea Weber 'Active Labor Market Policy Evaluations: A Meta-Analysis', IZA Discussion Paper No. 4002, 2009, p.25.

consistently non-positive impacts, in the long-term, on both earnings and employment outcomes.<sup>102</sup> ‘...public works, which are politically popular in many of these countries (transition countries), have nearly always a negative impact on the labour market outcomes, due to either stigmatization of participants on the eye of potential employers or due to ‘benefit churning’.’<sup>103</sup> Both effects (i) ‘stigmatization’ (employers tend to perceive participants in public works programmes as low productivity workers or workers with tenuous labour market attachment and avoid hiring them) and (ii) ‘benefit churning’ (long-term unemployed are placed into these schemes so that they re-qualify for benefit payment immediately after the termination of the scheme when they are back to another unemployment spell) are rather common for public works programmes and contribute to the poor performance of this intervention. Furthermore, these programmes involve considerable costs, while the benefits are rather uncertain.

At the same time some researchers refer to public works as an effective safety net intervention that can benefit disadvantaged individuals. There is evidence that those programmes can help in particular situations, for example, in regions strongly affected by economic recession, being useful to fight poverty (income transfers).

In WBCs public works are part of ALMP portfolios and account for a big share of total ALMP expenditure in Kosovo (65%), Serbia (36%) and Montenegro (20%), while in Croatia and the former Yugoslav Republic of Macedonia they play a modest role with 6% and 3% respectively. Public works are seen to maintain the working abilities of unemployed and are organized, as it is done in Montenegro for a period of 6-9 months. They are including communal, ecological and social protection (support to elderly) activities. In Montenegro public works started being implemented for the first time in 2004, and in two years about 1,450 unemployed persons were engaged in some of these works. In Kosovo this measure was applied in the framework of the Youth employment project in 2005 – 2006, when more than 3,000 young unemployed received such support.

In the context of the economic crisis some countries started using the instrument more extensively. For example the former Yugoslav Republic of Macedonia amended its Operational Programme for 2009 and introduced public works programme, engaging 5,000 unemployed persons, mutually funded by the central and local governments, in spite of the fact that former experiences with this programme confirm its expensive character and inability to improve employability of the participants. Although in 2010 the programme of public works was not included in the Operational Plan and thus the ALMP budget was reduced by 200 million dinar (about 1.9 million euro).<sup>104</sup>

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<sup>102</sup> Effectiveness of Active Labour Market Programmes: a Review of Programmes in Central and Eastern European and the Commonwealth of Independent States. USAID. 2009, p.13-14.

<sup>103</sup> H. Lehmann, J. Kluve ‘Assessing Active Labour Market Policies in Transition Economies’, IZA, 2008, p. 29.

<sup>104</sup> Seminar on evaluation of active labour market policies, Skopje 2010, <http://www.idividi.com.mk/English/Macedonia/599145/index.htm>

In response to the economic crisis Serbia puts more emphasis on organizing public works for discouraged and long-term unemployed (Action plan of employment for 2010). Public works will have clearer regional dimensions, too. Most of them will be organized in underdeveloped and devastated regions in Serbia. The categories of unemployed with low chances to find job will include: long-term unemployed, low-skilled persons, redundant workers, people with disabilities, socially deprived Roma, refugees and IDPs, and returned emigrants being in the process of readmission.

#### **4. Summary conclusions: Demanding and enabling side of activation**

Since the early 1990s activation policies are being implemented throughout the European Union – and the Western Balkan countries gradually also follow this trend. Activation policies rely on a combination of demanding ('work first') elements and enabling ('human capital') elements. Both components aim at lowering barriers towards employment, but by different means: the demanding component stresses the obligations of unemployed clients and intensifies the controlling, while the enabling component puts the main focus on the development of skills and clients' prospects to find a job via active labour market measures. The activation measures (their scope and outcomes) depend on economic cyclical fluctuations and the effectiveness of interventions might reduce in the times of crisis.

##### *Demanding side of activation*

Western Balkan countries are gradually incorporating activation principles in their policy portfolios. The 'demanding' aspects of activation start being reflected in the laws and regulations. Programmes in WBCs typically have certain formal requirements for recipients (a number of obligations to be fulfilled by unemployed clients in order to qualify for benefit), which among other things also are meant to reduce the incentives for registering as unemployed for purposes other than job search. At the same time it should be stressed that stricter availability criteria and individual activity requirements represent activation policy components, which are developed rather weakly in the majority of WBCs. Although the requirements in some countries recently became stricter, PES have very limited and insufficient capacity to control the compliance with all existing rules and to intensify the monitoring of job search behaviour. Moreover the formulation of rules in some cases is vague (what is meant by 'suitable work offer', refusal of which entails sanctions? What are 'not justified reasons' for skipping appointments with the counsellor or for refusing the job offer, which also entails sanctions? What is exactly meant by 'regular' reporting to PES? etc.). The absence of clarity on such issues creates obstacles for proper monitoring and this problem is typical not only for WBCs, but is also familiar to old Member States.

Furthermore there are crucial factors related to the current structure of the benefit systems, which seriously restrict the possibilities of PES in WBCs to utilize the demanding side of

the activation concept. The limitations stem from the low level of benefits (low income replacement rates) and low proportion of benefit recipients (low coverage). The prevailing low level of unemployment benefits gives no room for benefit reduction. The current benefits level can hardly be considered as one creating serious 'disincentives' for recipients in terms of job search. Moreover the level of benefits is often such that they cannot even play the role of poverty alleviation and some countries might consider increasing it in the direction of international standards. A more generous approach is rather an exception and is applied only in some countries to certain specific groups. In those particular cases there is room for applying a more consistent way for implementing the demanding principles of activation. The low coverage represents another serious barrier. It is obvious that PES have little scope for putting pressure on clients who do not receive benefits and thus PES 'demanding' requests de facto concern only a small group of clients (about 2% of registered unemployed in FBiH; 7% in Albania; 10% in Serbia).

It goes without saying that transitional economic difficulties, among which the lack of vacancies and low job creation are crucial to emphasize here as they impose objective constraints on PES ability to carry out their core tasks and create an environment in which 'demanding' instruments – intensifies job search monitoring, sanctioning, etc. – are doomed to remain rather ineffective. It follows that in order to apply activation principles in a meaningful way the activation concept has to be adjusted to the transitional circumstances of WBCs. For example, the presence of a huge informal sector might entail, as suggested by some international experts, **the intensification of monitoring for the detection of informal employment relationships.**

As the group of registered unemployed receiving the benefit is small, and in some countries (BiH and the former Yugoslav Republic of Macedonia) even diminutive, one possibility could be **to extend the policies to other groups** of benefit recipients as there is definitely room for influencing and stimulating more intensive job search of particular groups of clients which receive(d) a 'too favourable' benefit entitlement. Examples include a very extensive category of unemployed, 'demobilized soldiers' in BiH and war veterans in Croatia. The same concerns 'redundant workers' receiving generous severance packages; and to a certain extent workers closer to retirement age who benefit from special 'long-term' benefit arrangements.

Further, in some cases it is recommended by international experts to revise the overall structure of unemployment benefit to combine relatively short duration (providing an incentive to take up new work) with an appropriate level of benefit (allowing the unemployed to maintain themselves while searching for new jobs)<sup>105</sup>. In the same direction

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<sup>105</sup> See for example the recommendations provided by ILO experts in 'Employment Policy Review of Montenegro' <http://www.coe.int/t/dg3/socialpolicies/socialrights/source/EmploymentPolicyReviewMontenegro.pdf> p. 48

goes the advice of the World Bank experts<sup>106</sup> to consider **replacing extended unemployment benefits** (beyond the maximum of 12 months) with the social assistance scheme. In particular it is suggested to merge or replace extended unemployment benefits for women aged 57 and men aged 59 receiving benefits beyond 12-month period with the social assistance scheme.

#### *Enabling side of activation*

Active labour market measures form the core part of the activation concept in its 'enabling' side. For WBCs active labour market measures remain a relatively new tool, which mainly started being used only in the last decade. Gradually the countries accumulate experience and make certain progress with incorporating active measures in their national employment strategies. Some of them (such as Croatia, Serbia, Montenegro) have managed to develop more comprehensive approaches by now. However, in some cases ALMPs still remain to be ad-hoc or donor-driven initiatives or 'remedial measures to response to perceived labour market problems'.

It is rather typical that *elaboration* of active measures and their *implementation* is done by different bodies. ALMPs are usually designed at central level by the respective departments of the Ministries for Employment and implemented by PES. But in some cases (as Montenegro) PES also play a rather active role in the design of the measures. With the exception of Croatia, the employment ministry is usually the only ministry involved in the design of ALMPs. It has been observed that the annual programmes of ALMPs have not been changed significantly in the past several years meaning that the incentives to improve the ALMPs are not strong.

The **ALMP portfolios generally** remain rather limited, and the number of unemployed people involved in ALMPs is usually low. In Croatia, the former Yugoslav Republic of Macedonia, Albania and Bosnia only about 2% of registered unemployed are participating in ALMPs. The packages of measures also differ from country to country with a clear emphasis on 'Employment incentives' in BiH and Croatia; on 'Start-up incentives' in the former Yugoslav Republic of Macedonia; 'Training' in Albania, 'Public works' in Kosovo and mixed portfolios in Serbia and Montenegro which encompass in comparable proportions training, employment incentives, supported employment, direct job creation (public works) and start-ups. There are certain considerations for an appropriate ALMP portfolio choice stemming from the evaluation research conducted recently both in European and transitional contexts. The conclusions of the evaluation research might be helpful and should be taken into account while considering ALMPs options in WBCs. The types of interventions currently in use (training, employment incentives, start-up schemes and

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<sup>106</sup> See: Active labor market programs in FYR Macedonia. A policy note. World Bank, 2008, p. 8, 32-33.



public works) are screened and discussed in the context of their potential advantages and disadvantages.

In spite of the fact that over the last decade WBCs have invested respectable funds in developing ALMPs, the **expenditures on active measures** in the WBCs remain generally low and WB countries continue lagging behind compared to the EU Member States (EU 27 – 0.46% GDP, while WBC spend less than 0.1% with an exception of Croatia, where it is about 0.16%), although they are comparable to the expenses in some of the NMS (RO 0.06%, BG 0.26%). Lack of funds, aggravated by the current economic crisis, represents a serious problem for the development of the ALMP instrument. The issue of restricted budgets is intensified by (i) the practice of residual allocation of funds for ALMPs, what leads to uncertainties and difficulties in planning; (ii) prevailing annual budgeting and late approval of the funds what causes delays in ALMP implementation and breaks continuity, (iii) lack of regional consultations in the process of budget allocation, etc.

If institutional arrangements for elaboration and implementation of ALMPs are in the majority of cases clearly defined and established, the evaluation of measures did not yet become a common rule in the WBCs. Evaluations are conducted only occasionally on an ad-hoc and fragmented basis. Very restricted funding, as well as insufficient knowledge and lack of evaluation capacity form the main obstacles. The current practice involves very limited evaluations, with poorly developed criteria usually focused on the number of participants in a specific activity or on the question whether the funds spent on the measure equal the funds planned. Recently the WB countries started incorporating evaluation requirements in their strategic documents and regulations and thus making first steps to introduce evaluation on a more regular basis. The preparations for the use of the Structural Funds in the future might give an impulse to this process as it was the case in other European countries.

Proper targeting of ALMPs along different dimensions (special groups of clients, industries/professions, regions, types of unemployment) remains very important especially in the context of limited resources. In general, targeting and prioritizing are rather weak and mostly do not go beyond the definition of certain groups (most often 'difficult' groups) in the National Plans (for example, long-term unemployed, people with disabilities, women, young unemployed, refugees, war veterans, etc.). Often the selected groups are so numerous or large that the very purpose of targeting gets lost. The targeting dimensions and criteria are not clearly defined. It appears that more attention needs to be paid to those issues. Furthermore, the employment and activity rates of women are very low in most countries of the region (particularly in Kosovo and Bosnia and Herzegovina), and there is a necessity to focus more on activation measures targeted at women (or specific groups of women) since women's participation and employment can constitute a major driving force of the labour markets and contribute to economic growth.

In line with similar trends in Europe some of the WB countries (Croatia, Montenegro) recently started to categorize the clients according to the level of 'employability' and differentiate accordingly the scope of services provided to different groups (a general platform of services for all job seekers and more intensive assistance for the 'hard-to-place'). These steps demonstrate one of the possible targeting approaches aimed at a more efficient use of limited resources.

Discussions on targeting issues continue. Researchers confirm that targeting ALMPs in the transition context becomes very challenging and question whether the traditional 'recipe' to focus on 'most difficult groups' among unemployed will work in WBCs. In the specific context of WBCs the likelihood of regular employment for the 'most hard-to-place' participants is not increasing as a result of their participation in ALMPs. Thus one of the suggestions is to refocus the attention and target youth, while supporting 'difficult' groups by other means. The stronger focus on young unemployed is already being observed and a number of large-scale programmes in Serbia, Kosovo, Albania and Bosnia are presented in the report. Along with the European requirements WBCs recently pay more attention to the unemployed clients with disabilities, which is reflected in their legislation and action plans. The undertaken steps and measures aimed at this group are highlighted in this chapter.

While analysing the activation approaches in WBCs it is worth bearing in mind that the activation patterns and the degree of reliance on the ALMP instrument is very different among the European countries and does not primarily depend on the level of unemployment in the country. Thus the policy choices among WBCs might also vary and the role attributed to ALMPs can considerably differ from country to country in the future. The models might be shaped differently also depending on which of the ALMP's functions are / will be given a priority in particular WB countries (namely: (i) contribute to employment creation (ii) improve participants' employability (iii) help poverty prevention (iv) help to achieve greater equity by supporting the disadvantaged groups)

## Chapter 2 PES as key actors in activation

Although PES are structured differently in each country, all of them are traditionally tasked to act as job brokers: collect and display job vacancies and work towards a rapid and suitable match between supply and demand. PES core function of labour exchange and their central role in contributing to the matching process requires the provision of (i) information (PES collect data on job vacancies and potential applicants and provide information on the possibilities for (re-)training), (ii) job search assistance and placement and (iii) active support services (both to employers and jobseekers, but the most intensive services are directed towards disadvantaged groups).

The current economic downturn and persistent unemployment create higher expectations for PES to deliver effective job search facilities and job placement assistance to the unemployed. During the crisis the number of PES clients is rapidly increasing and so is the pressure on the front staff, while financial resources remain very limited. The majority of PES, including PES in the Western Balkans, have responded to the crisis by intensifying and expanding existing job-matching services, although to the extent allowed by available capacity and resources.

**Job brokerage** interpreted either as PES core activity or as a 'soft' ALMP is an essential component of activation policies and PES activation effort. Thus this chapter has a focus on what and how PES in WBCs do in order to fulfil their job matching task. Those issues are tackled after an overview of PES institutional arrangements and reform process and a sub-chapter on the capacity of PES to perform their tasks.

Activation policies require an important administrative capacity to provide individualized assistance with job search and the effectiveness of activation policies depends on the level and quality of staffing, thus one sub-chapter will deal with different aspects of **PES capacity**. As the success of matching efforts is also directly linked to PES vacancy portfolio, in the following sub-chapter we turn to questions related to **vacancies** (ways of capturing and processing, etc.). Availability of **skills** requested by the labour market represents another factor crucial for matching labour market demand and supply. Consequently we dedicate a sub-chapter on discussing **vocational education and training** (VET) policies and practices, including the role of PES in it.

Modernization and institutional capacity building of PES in the Western Balkans is strongly supported by international donor organizations, which bring in both their experience and financial resources. The introduction and development of activation strategies is closely connected with high involvement of western institutions and experts. The issues related to donor support are discussed in the concluding sub-chapter.

## 1. PES institutional structure and recent reforms

The PES in the region are public institutions under the supervision of the Ministries of Labour (the Ministry of Economy and Regional Development in the case of Serbia). Their managing boards, usually consisting of around 10 members, are typically tripartite and thus include government representatives and social partners, in Croatia also PES staff and unemployed persons are represented. PES cooperate with different government bodies (most notably the Ministries of Labour, Finance and Education), social partners<sup>107</sup>, education and training institutions, social contributions funds and international donors. There is also cooperation with private employment services, but collaboration is in most cases still not very developed. In Serbia, private employment agencies may be included in the implementation of active labour market policies (mainly trainings) based on contracts with the PES. There are also plans to exchange data on the number of job seekers and vacancies between the PES and private employment services on a semi-annual basis. There are similar plans in Croatia, where the National Employment Promotion Plan 2009-2010 aims at establishing an integral system for collecting data from records run by private employment agencies. In Albania private employment services are mainly dealing with the placement of workers abroad and in the former Yugoslav Republic of Macedonia they are mainly engaged in head-hunting services.

Most PES in the region are divided into three levels: a central level agency, regional branches and local offices. The central offices typically provide guidelines for the work in the regional and local offices, whereas PES core activities are usually being implemented in the regional and local offices. However, in Serbia the organizational structure of PES has even more levels whereas in the former Yugoslav Republic of Macedonia the structure of the PES comprises only two levels: a head office and 30 local employment centres (although eight of the local offices provide services on inter-municipal and thus regional level). In Bosnia and Herzegovina the structure and interaction between the different PES levels is particularly complex and is therefore explained in more detail in Box 2.1. This is a result of the extremely complex decentralized institutional structure of Bosnia and Herzegovina. Below the state level a high number of institutions are involved in both policy design and implementation. This has significant impact on the coherence across the institutions and

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<sup>107</sup> All Western Balkan countries have established an institutional framework for tripartite social dialogue between representatives of governments and of workers' and employers' organizations. The institutionalization of national tripartite social dialogue started in Croatia (beginning of 1990s), followed by Albania, FYR Macedonia and Republika Srpska (1996-97), Serbia-Montenegro including Kosovo (2001) and the Federation of Bosnia-Herzegovina (2002). The social partners are slowly taking a more active role in the governing and implementation of public employment policies. The social dialogue takes place through participation of the social partners in the preparations and implementation of Employment Strategies, in concrete projects, in managing boards of certain bodies and institutions, membership in Steering and Managing Committees of certain projects, and particularly in the work of the Economic and social councils (ESCs). The ESCs, a general platform for tripartite social dialogue, are in place in all Western Balkan countries. Their creation is rather recent (the oldest economic and social council is the Croatian, established in 1993) and often they do not function very effectively (e.g. in Kosovo, Montenegro, Serbia, Albania). Social dialogue remains in many countries a 'paper activity' with only formal or limited participation of social partners in the decision-making processes.

labour market(s) as well as the ability to service the many political interfaces and to develop, install and maintain common information systems and other operational processes.

Box 2.1

### **PES structure in Bosnia and Herzegovina**

In Bosnia and Herzegovina PES is organized in a State Employment Agency (SEA), the employment bureaux at entity level (Federation of BiH and Rep. Srpska), the Brcko District and local/cantonal employment services. Active employment policies are implemented at the entity level. The only functions of the state level agency are international relations, monitoring the employment agencies at entity level in the implementation of ILO conventions adopted by BiH, and research into working abroad. The agency has a staff of 27 employees and a (non tripartite – unlike the PES at entity level) governing board. Some functions of the SEA overlap with the mandate of the Ministry of Civil Affairs, while responsibility for organizing and coordinating services that are common to the entities' employment services (e.g. establishment of common standards for the registration and placement of job-seekers, collection and analysis of labour market information, etc.) is assigned neither to the SEA nor to any other institution. This vacuum makes it difficult to implement labour market reforms throughout the whole territory, although the employment bureaux of the Rep. Srpska and the Federation are working together, seeking to create a singly labour market.

The Employment Agency of the Republika Srpska is a centralized agency with regional offices directly responsible to the entity level PES. There are six regional offices and 56 local branch offices. The income of the Employment Agency comes from a 0.7% payroll tax on the gross salary.

The Federal Employment Institute of the FBiH is a coordinating agency of the canton level PES, which are not responsible to the entity level PES but to the Cantonal Assembly. The agency plays a supporting role in cooperation across cantons and directly funds ALM measures. The cantonal employment services receive their funding from the payroll tax. There is a special fund at federal level to assist cantons in difficulties. There are 10 cantonal employment services (one for each canton) and 74 municipal employment bureaux. The FBiH provides guidance on active labour market measures, but the programmes are approved by the cantonal employment bureaux.

In the Brcko District the employment service is a department affiliated to the Mayor's Office. It has eight employees and is entirely financed by the District budget.

Administration of unemployment benefits as well as the responsibility for ALMPs is usually shared between the central and regional offices (Table 2.1 below), in Albania between the regional and local offices. In Croatia – on the central level – two departments are dealing with ALMPs: the department for mediation and ALMP and the department for employment preparation. There is furthermore a business sector for organizational development and project implementation (including analytics, statistics, project implementation). In the former Yugoslav Republic of Macedonia the Department for ALM measures in the central office actively participates in the elaboration, implementation and monitoring of the Operational Plan for ALMPs (managed by the Ministry of Labour and Social Work and coordinated by the PES). Other departments participating in monitoring and implementing active labour market measures include the departments for labour market analysis and research,

finance and accounting, IT, unemployment insurance. In Serbia, four departments are dealing with ALMPs at central level: the department for job brokerage and career planning; department for entrepreneurship and programmes of employment, department of quality, analysis, statistics and monitoring projects, international affairs and informing; and the department for IT which creates datasheets of beneficiaries of labour market programmes and measures to be spread through all branch offices.

Table 2.1

**Key information on PES structure in the WBCs**

Country	PES	Number of regional and local offices	Administration of unemployment benefits	Responsibility for ALMPs
Albania	National Employment Service of Albania (NEA) <a href="http://www.shkp.gov.al">www.shkp.gov.al</a>	Central office, 12 regional offices and 24 local offices, 10 vocational training centres	Regional and local offices	Regional and local offices
Federation BiH Rep Srpska	Labour and Employment Agency of BiH <a href="http://www.arz.gov.ba">www.arz.gov.ba</a>  Federation of Bosnia and Herzegovina – Federal Employment Institute <a href="http://www.fzzz.ba">www.fzzz.ba</a>  Labour and Employment Agency of RS <a href="http://www.zzrs.org">www.zzrs.org</a>	Coordination office at national level  Federation of BiH: 10 cantonal, 79 municipal offices  Republika Srpska: 6 regional, 56 municipal offices  Brcko District: 1 office	RS: Entity office FBiH: Entity office and canton offices	RS: Entity office FBiH: Entity office and canton offices
the former Yugoslav Republic of Macedonia	Employment Service Agency of Macedonia (ESA) <a href="http://www.avrm.gov.mk">www.avrm.gov.mk</a>	Central office, 30 local offices	Central office	Central office
Croatia	Croatian Employment Service (CES) <a href="http://www.hzz.hr">www.hzz.hr</a>	Central office, 22 regional and 95 local offices, 3 training centres	Central office and regional offices	Central office and regional offices
Kosovo	Kosovan Public Employment Service (ZPP)	7 Regional Employment Centres, 23 Municipal Employment Offices, 6 Municipal Sub-Offices, 8 Vocational training centres	n.a.	
Montenegro	Employment Agency of Montenegro (EAM) <a href="http://www.zzzcg.org">www.zzzcg.org</a>	Central office, 7 employment bureaus and 14 local offices	Central office in cooperation with the employment bureaus	Central office
Serbia	National Employment Service <a href="http://www.nsz.gov.rs">www.nsz.gov.rs</a>	Central office, 2 offices at the level of autonomous province, 32 regional offices, 21 local offices, 127 sections	Central office and regional offices	Central office and regional offices

Source: National experts.

Overall, in most Western Balkan countries centralized decision-making processes in the field of employment policies prevail and the capacities of institutions responsible for the design and implementation of employment policies are limited, mechanisms for monitoring and evaluation remain being poor. Furthermore, there are hardly any mechanisms in place

for efficiently addressing local labour market needs. Yet this would be particularly important given the very significant regional disparities within most Western Balkan countries. The capacity of regional and local PES to respond and adapt to local labour market needs is still very much underdeveloped. However, most of the Western Balkan countries have already started to discuss the issue of decentralization of employment policy implementation and have launched pilot projects (mainly with the help of international donors) focussing for instance on the introduction of active labour market measures as a responsibility of local self-governments or the establishment of Regional Labour Market Councils.

#### *Recent reforms of PES*

PES in the transition economies of the Western Balkan countries had to face many challenges. The political change in the 1990s was followed by privatization and industrial restructuring with mass lay-offs, which caused a sharp increase in unemployment. It also revealed significant underemployment, being also paired with low labour productivity. The states of the former Yugoslavia were furthermore suffering the consequences of war, having to deal with a destabilized economy and the issues of refugees and displaced persons. Thus, institutional capacities, coverage and quality of services had to be gradually upgraded with significant help of international donors. There have been important reforms of the PES in the region in the last decade, however, the reform process is in many cases still 'work in progress' in order to achieve the goal of bringing the PES of the region up to modern standards with well-defined purpose and role as well as efficient service delivery.

In the past years reforms of PES in the region have focused on issues such as enhanced orientation towards clients, improved labour market information, training of staff, use of new technologies and institutional reforms.

Recently, the PES in **Albania** has been undergoing a process of modernization regarding the use of new technology. The central office and the offices of Tirana region and Korca region have been linked by intranet. This means that information entered by these regional offices can now be directly accessed and controlled by the central office. Moreover, employers can as well enter their vacancies and other related information. The PES is also engaged in becoming more flexible in regard to labour market changes, aiming at increasing the match between supply and demand for labour, and thus improving its services. However, the reforms are still in a pilot phase.

In **Bosnia and Herzegovina** the undergoing reforms in the area of war-veteran rights and the social benefits system, which includes removing the burden of administering health insurance and other benefits from the PES, will eventually lead to equipping the PES with the adequate capacity to focus on their core functions, to expand the range and improve the effectiveness of active labour market measures. This reform is particularly essential

considering the fact that the PES in the country are spending at least 40% of their budget on various unemployment benefits and are devoting at least two thirds of their staff to administering them, which seriously impedes the successful pursue of active measures.

Compared to other WBCs **Croatia** is rather advanced in the process of reforming and modernizing PES procedures and services. Reforms over the last years included improvements of the information system, education of staff, working with clients, the introduction of new internal procedures of managing cases, better coordination with other institutions in Croatia, improved working relationships with employers, inclusion in the international network of similar institutions and joining regional cooperation initiatives.

The PES in **Kosovo** has been offering employment counselling and career guidance, together with job brokering and labour market training since 2001. Although some progress has been made concerning the collection of administrative data and the regular running of the Labour Force Survey, there is still no coherent system that matches data coming from different sources. Thus, PES reforms are on the agenda so far in Kosovo and they tend to be very much donor driven and donor dependent 'projects'. Examples for such PES capacity building projects include the UNDP-led 'Active Labour Market Programme for Youth' (since 2005), which helped to strengthen the capacity of the PES to organize its interventions along the lines of individual case management and to provide direct assistance to unemployed youth through a number of active measures. The ILO is also very active in the field of strengthening the capacity of the labour market institutions in Kosovo e.g. with regard to service provision, consultancy, orientation and identification of vacancies for jobseekers as well as the design, monitoring and evaluation of policies and employment programmes for the young. Training and coaching programmes were developed for the staff of the PES to enable them to identify and target young people at risk, and to use appropriate counselling and guidance skills.

In **the former Yugoslav Republic of Macedonia** PES reforms in recent years were to a large extent supported by the EU funded CARDS project: Technical support to the employment policy in the former Yugoslav Republic of Macedonia. The aim of the project was to develop new services and methods of labour service delivery. An important outcome of the project was the development of a new model of service delivery that includes: (i) unified services provided by all local employment offices; (ii) standardized methods for service delivery; (iii) creation of an 'open office' providing electronic access to databases for CVs, vacancies, etc. through a web portal; (iv) elaboration and updating of the annual local employment plans; (v) establishment of a labour database for employers and persons seeking employment; (vi) development and implementation of ALMPs for different target groups. Most of these services have already been introduced into the regular work of the central and local offices in 2009. However, further upgrading needs to be done in the area of more effective operation of the web portal, in particular with regards



to vacancies notification as well as updating of the CVs database. With regards to ALM measures, reforms included reorganization of the operational work with the aim of providing better services to the clients, implying that more PES staff should now be dealing with ALM measures. Furthermore, steps have been taken in 2009 to free PES staff from additional administrative tasks. Unemployment status still provides automatic entitlement for health insurance, but the insurance has not to be provided anymore via the Employment Agency.

Previously the PES in **Montenegro** had a large degree of freedom in terms of policy design and financing. However, since 2008 the PES has been included into the state treasury which limits its financing decisions. Now all revenues collected by the PES constitute revenues of the government treasury and all expenditures are made directly from the treasury. This has important implications for the organization of work as well as for policy financing and implies a higher degree of centralization and control of spending by the government. Significant progress has been made in Montenegro regarding the improvement of the job brokerage services of PES.

In **Serbia** changes for the period 2006-2008 were based on four goals: (i) orientation towards clients; (ii) decentralization; (iii) development of monitoring and evaluation and (iv) development of an adequate labour market information system. However, up until now these changes have not been fully implemented. Regarding the first two goals, the PES significantly improved the provision of services for unemployed persons as well as employers. Front desk offices are available in regional and local PES offices. A part of PES staff improved their skills with regard to providing services to their clients. However, PES staff working directly with the clients is still overloaded by the number of clients (see also sub-chapter 2 on Capacity of PES). The PES has a dispersed network of organizational units that cover almost the whole country, but the level of decision making is still pretty centralized at the Central Office. Regarding the last two goals, there have been at least some improvements, e.g. by the introduction of a unique information system so that the data could be accessed from every PES branch office. Still, significant improvements need to be made in order to implement a system of monitoring and evaluation of active labour market policies. Currently evaluations are produced more on an ad hoc basis rather than being a regular tool applied by the PES. The situation is similar for the development of an adequate labour market information system. World Bank and CARDS funded projects have supported capacity building in this field, but so far the projects have been implemented only in pilot PES branch offices and have not been spread to other PES offices.

## **2. Capacity of PES**

Sufficient and well trained staff as well as adequate financial resources are essential for an effective and efficient performance of PES tasks, particularly when it comes to activation

activities. However, as will be explained in more detail below, PES in the region are mostly understaffed, overloaded and sometimes burdened with atypical functions such as for instance administration of health insurance entitlements. Thus, capacity in most Western Balkan countries is still a long way from the service level required to cope with the current challenges of increasing unemployment and skills mismatches. Most PES are still poorly equipped in comparison with EU countries and short of both financial and human resources.

## 2.1 Staff numbers and case load

With respect to staff numbers and case load there are wide variations in the figures for the WBCs. Tables 2.2 and 2.3 focus on staff capacities in relation to registered unemployed. Considering the ratio of total PES staff to unemployed, significant differences can be observed. In Kosovo, the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina there are more than 600 registered unemployed per one PES staff member, whereas in Montenegro the ratio is a very favourable one PES staff member to 84 unemployed. Within the European Union, the average ratio is around 1:150 (in some countries often below 100) while the figure recommended by the ILO is 1:100<sup>108</sup>.

Table 2.2

### PES staff numbers and unemployed people

Country	Number of registered unemployed			Number of PES Staff			Number of PES Staff working directly with clients (front office staff)		
	2006	2008	2009	2006	2008	2009	2006	2008	2009
Albania	157,000	141,700	143,340	431	372	354	na	175	213
Federation BiH	380,733	342,174	343,402	507	543	518	na	na	170
Rep Srpska	144,106	133,074	145,396	243	261	265	152	158	141
the former Yugoslav Republic of									
Macedonia	366,551	343,363	341,295	504	525	507	269	276	270
Croatia	291,616	236,741	263,174	1189	1251	1266	na	723	na
Kosovo	324,532	335,942	338,895	459	384	357	199	182	182
Montenegro	38,869	29,514	28,385	342	345	338	258	250	243
Serbia	916,257	728,000	730,000	2014	2256	1990	1151	1365	855

Source: National experts.

However, the caseload indicator (the ratio of unemployed to PES counsellors/front office staff) is considered to be even more essential as it demonstrates what the real work

<sup>108</sup> Kuddo, A. (2009), 'Employment Services and Active Labor Market Programmes in Eastern European and Central Asian Countries', SP Discussion paper No. 0918.

pressure put on counsellors is. High caseload limits regular reporting and conformation of unemployment status by job seekers, as well as opportunities for job counsellors to monitor and encourage job search and deliver information. Thus in the majority of countries services are 'tiered', so that initially unemployed people are left largely to fend for themselves, and only those who are unable to find work after some period of time are provided with more intensive advice and assistance. In most Western Balkan countries, the caseload ranges from almost 700 to more than 800 clients per front staff member. Croatia has a somewhat more favourable ratio (327), while again Montenegro is by far the best performer with 117 clients by each front office counsellor, which is related to its comparably low unemployment rate. On the other side of the scale, the situation is particularly dramatic in Kosovo, with a caseload of 1,862 clients per one employment counsellor, as well as the former Yugoslav Republic of Macedonia where one counsellor is dealing with 1266 cases. However, in the former Yugoslav Republic of Macedonia the caseload is expected to become fewer as steps have been taken to free PES of administering health insurance and other benefits, so that more resources can be allocated to counselling. In Serbia, during 2009 and 2010 the PES significantly reduced its staff according to the implementation of the government's Programme of redundant labour rationalization in the public sector, which explains the growth of the caseload indicator from 533 to 853 clients per counsellor.

Table 2.3

**PES key ratios**

Country	PES Staff: Unemployed Ratio			Ratio of front-line counsellors to total PES staff (%)			Caseload (clients per member of front office staff)		
	2006	2008	2009	2006	2008	2009	2006	2008	2009
Albania	1:364	1:380	1:404	na	47	60	n.a.	809	672
Federation BiH	1:750	1:630	1:662	na	na	32	na	758	na
Rep Srpska	1:593	1:509	1:548	63	61	53	na	848	na
the former Yugoslav Republic of Macedonia	1:727	1:654	1:670	53	53	53	1,362	1,244	1,266
Croatia	1:245	1:189	1:207	61	58	53	na	327	na
Kosovo	1:707	1:875	1:949	43	47	51	1,633	1,846	1,862
Montenegro	1:113	1:86	1:84	75	72	72	150	118	117
Serbia	1:455	1:323	1:367	57	61	43	796	533	853

Source: National experts.

In most of the Western Balkan countries only slightly more than half of the PES staff are front-line counsellors (notable exceptions are Albania and Montenegro with 60% respectively 70% of front-line staff). In Bulgaria the ratio is 74% and in many other Member

States it is around or above 80% (e.g. Germany 86%, Sweden 78%, Estonia 83%, Czech Republic 84%<sup>109</sup>).

However, when looking at the large numbers of registered unemployed one has to keep in mind that many of the registrants are not genuinely seeking work. Estimates of the number of people in this category vary from 25% to 40%. Some register for health insurance and access to social support and many are active in the informal economy. Thus the high ratios of registrants to staff (including front office staff) in some countries (particularly in the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina) is partly due to existing legislation requesting or at least allowing registration for other purposes than receiving PES core services as well as the challenges of ensuring that people who register are genuinely unemployed and actively seeking for work.

Yet it is obvious from the descriptions above that many employment offices in the region are nevertheless severely understaffed for providing any serious job mediation and counselling. In Bosnia and Herzegovina for instance, municipal Employment Bureaux have an average staff of only around three persons per office in both entities. Also in Albania, local offices are relatively small ones, often employing not more than four people, leaving little time and capacity for thorough counselling of clients. In some cases it might thus be worth considering joining efforts and resources to be able to guarantee a certain minimum standard of services.

Moreover, as pointed out earlier, PES staff in some Western Balkan countries is still burdened with functions that are not typical to PES in most other countries. For example in the former Yugoslav Republic of Macedonia, in addition to the benefit and insurance registration, the staff is engaged in the registration of newly opened employment contracts and termination of existing contracts, as well as registration of new businesses. But most notably, in the past decade administration of health insurance has been a common feature of PES tasks in the region, before reform processes have started and in most countries are finalized. Currently the former Yugoslav Republic of Macedonia is reforming this system. In the years 2007 and 2008, roughly one fifth of the unemployed only registered in order to establish entitlement of health care for themselves and their families. The administration of health insurance absorbed much time and effort. In 2009 steps have been taken to ease the burden of the local employment offices and to remove this additional task from them. Also in Bosnia and Herzegovina it is reported that an estimated 30-40 per cent of the registered unemployed persons only register in order to receive health insurance coverage. To receive and retain the health benefit, the system requires that Employment Services process the initial registration and bi-monthly verifications, which puts a significant workload on the frontline staff. PES employees receive extra work load which prevents

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<sup>109</sup> World Bank (2008), Active Labor Market Programs in FYR Macedonia, Policy Note, Report No. 45258-MK, September 2008. (2006 data).

them from providing standard services to their clients.<sup>110</sup> However, the system is in the process of being reformed.

## 2.2 Level of education and training of PES staff

About half of the staff in all Western Balkan countries has a university degree and a further quarter have finished at least four years vocational secondary or grammar schools. Table 2.4 shows the level of education of PES staff in Western Balkan countries.

Table 2.4

### Level of education of PES staff

Level of education	Share of employees (per cent)					
	BA	HR	KS	MK	ME	RS
1-3 year vocational secondary school for skilled and highly skilled workers	1	1		4	7	7
4+ years vocational secondary and grammar school	25	25	34	30	21	29
Non-university degree	16	16	17	13	21	15
University	53	53	47	53	51	50
Other	5	5	2	0	0	0

Source: National experts.

In Albania, 80% of PES employees have tertiary education. Those who have an upper secondary school diploma or less are mainly employed for providing support services such as driving or maintenance.

Although the level of education of PES staff is generally high, there is still a great need for further training of staff. Tailored trainings are essential for strengthening the capacities of the staff (to upgrade their qualifications, competences and abilities). Training programmes for PES staff are frequently financed by international or bilateral projects (e.g. IPA and World Bank projects, study visits to PES in Member States). So far PES staff training included for instance improvement of the work with clients and job assistance services, marketing, quality management, software use, implementation of ALM measures, etc.

According to some unofficial estimates, about 10% of total PES staff in **Serbia** participated in training for capacity building. During 2010 and 2011 it is planned that 450 PES staff (roughly 25% of the total PES staff) from all branch offices (400 counsellors and 50 analysts and statisticians) will be trained in monitoring and evaluation of active labour market policies and implementation of forecasting labour market trends. These activities will be conducted

<sup>110</sup> See also Final Report 'Strengthening of the Institutional Capacity of the State Agency for Labour and Employment of BiH' 2008.

through the implementation of the IPA 2008 project Technical assistance for the PES building capacities in data management, forecasting, monitoring and evaluation.

In **Croatia** the PES provides continuous training to its staff, focussing primarily on the development of counselling skills, marketing, handling of difficult situations, work with clients, the National Standard Classification of Education/National Classification of Occupations, etc. In 2008 a new training programme was introduced entitled Education in Active Employment Policy Measures. 85 training activities were conducted in 2008 involving 638 participants. The IPA I project 'Croatian Employment Service Labour Market Training Centre' aims at strengthening the capacities of labour market institutions, particularly the PES. Activities include the establishment of a training and staff development system for the PES. The technical assistance focuses on the development of an organizational and educational model for the Labour Market Training Centre and the increase of capacities and knowledge of PES employees in labour market issues and services. Within the framework of this project, 50 internal trainers, 10 external trainers and 50 internal mentors will be trained.

In **the former Yugoslav Republic of Macedonia** upgrading of PES staff has been continuously pursued. The training courses vary and included so far seminars and workshops in the field of employment services, finances, IPA funds, etc. In 2008 the PES has adopted a mid-term plan for training of its personnel. The plan has three components: Training of managers, training of trainers and training of the employees. During 2008, all managing personnel (head and local offices), which covers 7.6% of the total staff, has been trained within the first component to increase their management skills.

In **Albania**, over 235 staff members from the regional and local offices have been receiving training in 2008. Trainings are arranged by the Human Resources Department, mostly in collaboration with international or bilateral donors. Trainings are also organized by the Albanian Public Administration Training Institute. However, so far trainings have mainly involved central offices staff and some pilot offices, while training in the local offices is still weak.

In **Kosovo** training programmes with the objective of increasing the capacity of PES are mainly managed by international organizations, most notably ILO and UNDP. Donors provide valuable support to the PES staff in terms of e.g. enabling them to identify and target people at risk and to use appropriate counselling and guidance skills. Training also focuses on improving communication with enterprises.

Although from the descriptions above it becomes evident that the need for training of PES staff has been recognized by the countries in the region, there are still some important issues to consider: Not only the fields of training are essential (e.g. their relevance for

modern PES activities), but also the quality of the training, which still shows wide variations. It also has to be distinguished between tailor made training for specific activities and standard training. Equally important is the readiness of the PES staff to receive the training. They must be motivated to learning new skills, but, most importantly, they also need to be given the time resources to actively engage in training. Furthermore, especially when it comes to trainings financed by donors, coordination is essential to avoid overlapping and successful training programmes in pilot projects must be able to be expanded to country wide coverage. There is still a lot of work to be done in these respects in the Western Balkan countries.

### **2.3 Financial resources and expenditures of PES**

The PES in the region are financed either (almost) entirely by the state (Albania, Croatia, Montenegro) or mainly by the state budget and social contributions (unemployment insurance). Contributions for unemployment insurance range from 0.9% to 1% of gross wages (e.g. Albania, Montenegro) to 2% of gross wages (e.g. FBiH) and are either paid solely by the employer (e.g. Croatia, Albania) or shared between employers and employees (e.g. Montenegro, Serbia). In the FBiH the (entity) Employment Agency is mainly funded by income contributions. This creates the somewhat paradox situation that higher unemployment rates mean less funding for the Employment Agency when it needs it most. (Financing of the Employment Agency of the Republika Srpska is more efficient as it comes straight from the state budget.) In the former Yugoslav Republic of Macedonia the level of contributions to the Employment Fund is gradually reducing: from 1.6 % in 2008 to 1.2% in 2010 and 1% in 2011, but the bulk of the budget comes from the government (almost 70% of PES total budget).

PES expenditure can very broadly be classified in expenditure on active measures, on passive measures and on administration (Figure 2.1 below). Active measures can include issues such as training and further education programmes, apprenticeship programmes, employment subsidies, start up loans, public works, etc. Passive measures usually include payment of unemployment benefits and other benefits (in FBiH for instance health insurance).

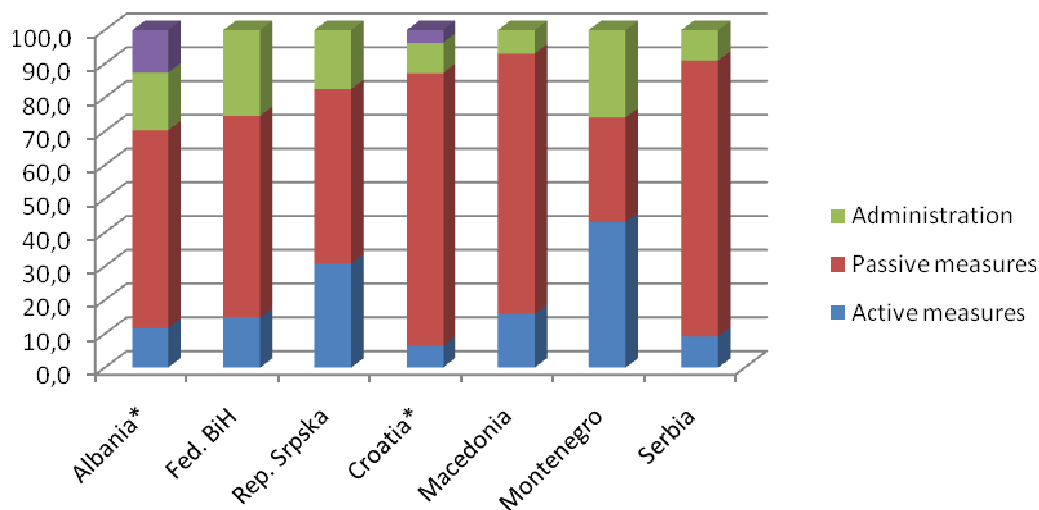
PES expenditure on active measures usually range between about 7 and 16 per cent of total expenditures, the only notable exception being Montenegro where 43% is allocated to active measures (and the Republika Srpska with 30% allocated). Again with the exception of Montenegro, passive measures, particularly payment of unemployment benefits, take up the highest share in expenditure (usually significantly more than half of the budget, in Serbia and Croatia even more than 80%). Administration costs usually range from roughly 10% (MK, HR, RS) to about 25% (ME, FBiH). Limited funding of administrative costs can restrict capacity building of the PES (e.g. ICT developments) as is for instance particularly

apparent in the former Yugoslav Republic of Macedonia. It becomes therefore evident that most PES in the region are mainly occupied with paying and administrating benefits, leaving little resources (staff as well as financial) for engaging in active measures and counselling.

Figure 2.1

**PES expenditures on active and passive measures and on PES administration (2009)**

in % of total expenditures on labour market policies



\* For Albania and Croatia: Purple indicates other expenditure not specified by the national experts.

Source: National experts. For a more detailed overview for all countries 2003-2010, please see Annex 1.

In the **Federation of Bosnia and Herzegovina**, budget allocation of the Employment Agency was before 2006 much more in favour of active labour market policies. At that time about 40% of the total budget was allocated to these activities. However, since unemployment benefits for war veterans have been introduced, the budget for passive measures increased considerably with now more than 50% allocated to it. As a consequence also the expenditure for administration rose significantly.

In **Montenegro** spending on passive measures increased significantly since 2008, which can mainly be explained by the introduction of a new benefit (minimum pension for elderly unemployed).

### 3. Job brokerage / matching

To increase the efficiency of the job matching process PES conduct job search assistance. Job search assistance and counselling represent an important component of the activation concept in its 'enabling' part. Job counselling activities proved to be not only cost-effective, but also crucial for the efficiency of more complex and expensive instruments (like ALMPs) which have to be targeted according to careful assessment of individual needs. Such



individual assessment in practice depends on contacts between clients and counsellors. Job search assistance includes numerous activities: provision of information on jobs, personal skills assessment and advice, preparation of individual plans, courses increasing readiness for the labour market, job clubs and job fairs, vocational guidance, counselling and monitoring, personalized support, job placement, etc.

This assistance is relatively inexpensive and is known to help job seekers in finding employment in a shorter period. Three key aspects are crucial for effective outcomes of PES efforts: (i) PES capacity to provide competent services to their clients (ii) sufficient availability of vacancies, to which job seekers can be matched and (iii) the presence of particular skills with job seekers. If the jobs are not generated in the economy, as it is the case in times of economic downturn, the impact of job matching activities is very likely to be reduced. Experts advise to combine job search assistance with other types of interventions, like skills training, which can improve the programme performance. The presence of the large informal sector observed in WBCs makes PES matching tasks even more challenging.

In the last decade all European countries have increased their efforts in terms of job search assistance. The tendency is towards a more individualized and personalized approach and the provision of specialized services to different groups of clients. This makes the instrument more expensive and requires higher competences from PES staff.

Also in WBCs job brokerage has recently received more attention. Persistent unemployment puts pressure and creates higher expectations for PES to deliver effective job search facilities and job placement assistance to the unemployed. Next to simple and standard services of registration, interviewing, providing certain guidance, preparing administrative documents and referring to jobs, WBCs started introducing more intensive support, preparing personal action plans, providing career guidance services, albeit this is done with significant cross-country variations.

Job brokerage services are provided mainly by branch offices, which work directly with clients. In some of WBCs (like in Serbia) the Central PES level is involved in the interregional coordination of job brokerage activities. In BiH mainly the cantonal offices of the FBiH are dealing with job search assistance as well as the entity PES of the Rep. Srpska, while the state level Employment Agency, and the entity PES of FBiH are not involved in this function.

Front offices in WBCs offer a range of services, although there are significant variations in the countries' service portfolios. In Croatia, where PES embarked on the reforms already a decade ago and managed to considerably modernize the services and train its staff, the clients can be offered wider spectrum and higher quality services including: job mediation

in the selection of candidates best matching employers' needs; provision of individual and group information to clients; free advertising of vacancies (via internet, bulletins, notice boards at PES offices), assessment of clients competences and characteristics; referral of candidates to employers, expert assistance in planning further professional path, referral of clients to training programmes and up skilling, provision of legal assistance in the field of employment, professional and organizational support including inter-regional mediation.

By now the function of PES as the intermediary on the labour market is widely acknowledged in public (while some other important PES activities are not so widely recognized). Since institutional changes in 2002, this function is open to private intermediators, making it even more visible to the general public.

In response to the current economic crisis counselling activities for specific groups were intensified in Croatia. Mobile teams were set up for the cases of collective redundancies to provide counselling services to the workers in the employers' premises (services are delivered on-site at an enterprise). The programme objectives are to help the workers at risk of losing their job, mediate for them and prepare them for a new labour market situation as well as prevent them from falling into unemployment. Every regional office establishes mobile teams depending on the employer's needs. The teams consist of employment counsellors, legal experts, psychologists and other experts when needed. The decision on establishing and dissolving mobile team is made by the head of the regional office. The areas of counselling are: unemployment compensation, job search, competencies, self-employment opportunities and training. Services to be provided by the mobile teams include<sup>111</sup>:

- group and individual information;
- individual counselling – assistance in defining the workers' working potential;
- group counselling – education aimed at acquiring job-seeking skills;
- assistance in self-employment and start-up of their own business;
- organization of Internal Employment Service;
- employment mediation (with respect to job vacancies);
- employment co-financing.

The programme of Mobile Centres represents an early intervention approach and builds on improving cooperation between employment offices and the companies in an effort to support workers threatened to lose their job. The Mobile team programme in Croatia resembles the so called 'workers transition centres' (WTCs) piloted in Serbia in the

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<sup>111</sup> See JIM / JAP Conference "Impact of the Economic Crisis on the Republic of Croatia" JAP Conclusions [http://www.mingorp.hr/UserDocImages/CONCLUSIONS\\_JAP.doc](http://www.mingorp.hr/UserDocImages/CONCLUSIONS_JAP.doc)

framework of the World Bank Employment Promotion Project in 2004-2006<sup>112</sup>. WTCs in Serbia were established in similar situations of companies restructuring and started as pilots in different regions.

The task of providing assistance to redundant workers usually encompasses such measures as (1) compensation for the job loss (severance payment, unemployment benefit, early retirement, etc.) and (2) redeployment services (training, assistance in job search, counselling). The second component was not developed, and WTCs were introduced to compensate for that. The key WTC functions were: helping to find a new job or to save the current job, provide support in coping with changes and in bridging the gap between available skills and jobs that are on the market. Services provided by WTCs combined pre-layoff and post-layoff needs.

Pre-layoff services: provision of information, support and counselling.

Post-layoff services: outreach, assessment and planning, job search, vocational testing and counselling, referral to training, referral to social, financial and health services, training, social support networks, job clubs, etc.

The main difference between WTCs in Serbia and Mobile teams in Croatia is that the latter are led by PES initiative, although also enterprise based, while WTCs with some limited support from the labour offices, were mainly formed of enterprise workers (committed and specially trained), employed full time by the enterprise. The commitment and competences of the team were among the crucial factors defining the success of the WTC. In this sense significant variations were observed between WTCs at different restructuring enterprises. At the same time lack of cooperation with relevant stakeholders (with labour offices in the first instance) was restricting the scope and quality of WTCs activities. This suggests that mediation and counselling are more effective when provided by employment service specialists, rather than enterprise employees. The WTCs in Serbia provide an example of an initiative which turned out to be unsustainable and was stopped with the end of the donor support. The lack of PES capacity to continue this measure as well as the inability of enterprises to lead were the main reasons for non-sustainability.

**Career guidance**, which represents a more 'sophisticated' tool, is weak in terms of coverage and systematic approach throughout the Western Balkans except for Croatia and (to a certain degree) Montenegro and Serbia where PES (in all three cases) is the main agency providing career guidance services. The PES in Croatia has an Employment Mediation and Preparation Department (both at central and regional levels). Regional offices have in their structure Vocational Guidance and Training Departments, as well as Centres for Informing and Career Counselling.

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<sup>112</sup> Jaap de Koning, Katja Korolkova, Mihail Arandarenko, Mariana Kotzeva 'Technical Assistance for Evaluation and Monitoring of Employment Promotion Project in Serbia', SEOR Rotterdam, January 2007

In Serbia the PES Central office has a Department of Job Brokerage and Career Planning – dealing with such issues as assessing employability, signing individual employment plans, counselling and guidance – (Table 2.5). PES also has established two Centres for Informing and Professional Counselling (in Belgrade and Novi Sad), which provide career guidance and regular labour market information to young people in the first instance. Furthermore, the Centres provide assistance to all unemployed in assessing their abilities and advising on work-oriented training for better job match. The net impact evaluation of active job-search trainings confirmed the level of employment at about 17%.<sup>113</sup> Table 2.5 presents the details of PES career guidance and counselling services in 2009, which are provided by regional and local branch offices and represent their regular activities. The level of activities is rather high – the service of ‘assessment of employability and individual employment plans’ was provided to 471,653 clients, while the total number of registered unemployed in 2009 was 730,000. The assessment suggests that about 14% of participants were employed within 6 months following the service.

Table 2.5

**Job search assistance, carrier guidance and counselling, Serbia 2009**

Services	no. of participants	% of women	up to 25	26-30	31-50	50+	% of long-term unemployed	seeking first job	% of employed 6 months following participation
<i>A. Carrier guidance and counselling</i>									
Assessment of employability and individual employment plans	471,653	51.9	21.1	17.5	45.5	16.0	17.4	37.0	14.1
Informing in CIPC*	1,522	63.9	25.1	17.9	44.8	12.2	39.8	...	...
Counselling and factors of difficulties in employability	9,621	56.4	47.7	11.8	29.7	10.8	26.3	...	...
Selection and classification	18,911	63.8	19.0	27.1	46.9	6.9	43.5	...	...
<i>B. Job search assistance</i>									
Job fairs	52,301	56.0	20.2	21.0	47.4	11.4	24.2	37.8	18.1
Job clubs	3,190	72.9	31.6	28.6	35.8	4.1	17.2	53.5	20.1
Active job-search trainings	35,911	61.6	37.6	22.2	35.4	4.7	11.2	50.5	17.3
Trainings of self-effectiveness	1,975	76.3	5.6	9.6	62.0	22.8	59.6	...	...

\* Centres for Informing and Professional Counselling.

Source: Based on PES data.

<sup>113</sup> See Ognjenovic, K. (2007), ‘The Use of Propensity Score-Matching Methods in Evaluation of Active Labour Market Programs in Serbia’. *Economic Annals* vol. 52, no. 172, pp. 21-53. Faculty of Economics Belgrade, January-March 2007.

In Montenegro the PES established in 2006 a pilot centre for information and vocational counselling. Career guidance services are now incorporated in the work of seven regional employment offices where they are provided through psychologists and coordinators attached to PES.

The example of Montenegro demonstrates not only the increase in the volume of services<sup>114</sup>, but also considerable progress in developing *employment counselling and career guidance* activities in the last five years when more focused attention started being given to them (Box 2.2). The services have become more intensive, personalized and specialized. Some categorization of clients has been introduced with differentiation of service support. At the recent CPESSEC Conference (November 2009) it was reported that the PES follows a differentiated approach to clients, classifying them in three main categories and providing each group with its own package of services (elements of profiling approach):

- directly employable, with qualifications required by the labour market (29.3%);
- employable under certain conditions (35.7%);
- hard-to-employ persons who need more intensive counselling (35%).

Box 2.2

#### **Montenegro: Job brokerage and job-search assistance**

Already in 2005 Montenegro spent around 1% of GDP on active measures (much more than ALMP expenditure in other countries of the region) and most expenditure is on services such as counselling, job-search assistance – which accounts for nearly half the ALMP budget.\* Although at that time it was assessed\*\* as being fragmented and lacking proper targeting (mandatory requirement to provide all unemployed with an individual employment plan within two months of registration). Later the Revised National Strategy for Employment and Human Recourse Development for 2007-2011 put forward the development of those services:

- counselling and guidance assistance in job seeking;
- development of the national system of professional orientation;
- cooperation with employers in the area of job-brokering and career choice services;
- expanding the existing and introducing new active instruments;
- conducting a comprehensive survey on labour market needs.

In 2007 the Centre for Information and Professional Counselling was established at the initiative of the national PES and the Local Employment Bureau in Podgorica. The Centre is an organizational unit within the national PES and aims to work in close partnership with key stakeholders in career guidance (Ministry of Education and Science, Ministry of Labour and Social Affairs, Chamber of Commerce, University of Montenegro, Centre for Development of

<sup>114</sup> The total number of counselling interviews reported by PES is rather high – 168,424 in 2008 (while the number of unemployed in 2008 was 29,514) - and indicates strong focus of the PES in Montenegro on job brokerage activities compared to other WBCs.

NGOs, etc.) as well as to establish a number of local centres. It is staffed with psychologists and career managers and targets different groups of unemployed and employers with an emphasis on young clients. The Centre also aims to establish a light methodological function to support guidance practitioners (employment counsellors, school psychologists) and to undertake surveys and research on demand and supply of guidance.

The Centre has established contacts and cooperation with a wide range of key stakeholders in guidance in the country (Ministry of Education and Science, Ministry of Labour and Social Affairs, Chamber of Commerce, University of Montenegro, Centre for Development of NGOs, etc.).

\* <http://www.coe.int/t/dg3/socialpolicies/socialrights/source/EmploymentPolicyReviewMontenegro.pdf> (Bucharest Montenegro 2006-2007) p 43. - \*\* As above.

This approach goes in line with the general tendency in Europe to provide: (a) self-help services (e-services, self-service procedures) to job-ready clients (b) individual services to unemployed who need support (placement, counselling and guidance, active labour market measures) and (c) intensified services for disadvantaged groups (more intensive counselling and assistance). In order to concentrate limited resources on the clients most in need, employment services increasingly expect regular unemployed to be responsible for their own job search and direct use of available information (often on-line).

A standard approach is applied in all labour offices of Montenegro to ensure they follow the same steps in dealing with counselling and guidance:

- registration of the unemployed;
- first information session with PES advisor (about 1 hour);
- individual interview with employment counsellor (min ½ hour) aimed at the preparation of the individual employment plan based on a detailed questionnaire and further update meetings at least once every 3 months;
- a part of the clients is referred to professional orientation adviser (long-term unemployed, hard-to-place, with low motivation, as well as those who are sent for training) and receive customized intensive services.

Tiered services – intensive case-management of ‘hard-to-place’ unemployed – have been introduced, but the actual capacities to deal with this group are limited. PES possibilities to provide better and more intensive special counselling and support over longer periods are very restricted. Moreover, new cohorts of unemployed, who lost jobs as a result of the current economic downturn have little experience with job search and may need more assistance from PES being likely to remain without employment for longer periods.

The progress achieved could be linked (at least partially) to the fact that in Montenegro the case load of the PES front staff is very low compared to other WBCs. The figure for Montenegro of 117 clients per counsellor is much closer to the ILO recommended

proportion of 100 clients and is several times lower than in all other countries of the region, particularly BiH and the former Yugoslav Republic of Macedonia (see sub-chapter 2, Capacity of PES), where the number of PES counsellors is totally inadequate for dealing with the increased number of unemployed people and even more inadequate in the context of delivering specifically effective mediation services. In the former Yugoslav Republic of Macedonia the workload of counsellors is so high that it leaves them only around 10 minutes per person per 'meeting'. In the WBCs many employment offices are understaffed for providing any serious job mediation and counselling. In BiH front staff is so burdened by administration of health benefits (initial registration and bi-monthly verification) that the time remaining for each unemployed person is extremely limited (in the worst cases 4-6 minutes)<sup>115</sup>.

Some other WBCs were also putting effort in introducing a more solid and consistent job brokerage approach, but the results were not always sustainable. In the former Yugoslav Republic of Macedonia a model for professional counselling and mediation for employment was elaborated in the framework of the EU-funded CARDS VET II project involving representatives from both education and employment sectors. This model outlined the principles, goals and functions of career guidance, but in fact was never fully implemented and when the project finished in 2002, coinciding with a change in government, it failed to be sustainable and these guidance activities did not continue. The ETF experts analysing the situation suggest that the results produced by an expert group and some officials were not sufficiently communicated at the policy-making level, that leadership was lacking and that the commitment of all the actors concerned was too low to make the results sustainable.

### *Job fairs*

Job fairs represent one of the tools widely used by PES in a number of WBCs (e.g. Serbia, Croatia, Kosovo, since recently in Albania) aimed at helping with and speeding up the job search. Some experts call it 'a strategy to fast-track the meeting of jobseekers and employers'. The advantages of this matching instrument are: low costs, possibility to involve large number of participants, potential to lower regional differences, promotion of the local communities. The tool is not new and is actively implemented for more than a decade undergoing certain adjustments and modifications in terms of targeting, organizational procedures and services to clients.

Serbia accumulated a lot of experience with job fairs (which are organized since 2003) and continues to rely on this measure (Box 2.3). The organization of the job fairs is the responsibility of the Sector for job brokerage and career planning (both at central and

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<sup>115</sup> Kuddo, A. (2009) 'Employment Services and Active Labor Market Programs In Eastern European and Central Asian Countries', SP Discussion paper No. 0918.

local/branch PES offices). Some evaluations were conducted earlier, although on ad hoc basis, which suggest a job placement rate of ¼ for participants of job fairs.<sup>116</sup> In 2009 all 32 regional employment offices were involved in the organization of job fairs and 90 events in total were held attracting 52,301 participants, constituting more than 7% of all registered unemployed. Currently the main target groups are: youth, women and the skilled, who in the majority of cases are persons anyway actively searching for job with relatively good educational background. The assessment suggests that about 18% of clients were employed 6 months following the participation in the job fair.

Box 2.3

**Serbia: Job fairs step by step methodology**

1. Needs analysis.
2. Setting the organizational teams for job fairs at regional and local levels; defining the roles: team leader, coordinator of advertising and donor related activities; coordinator of logistical issues; coordinator of activities with employers; administrative and secretarial support staff.
3. Design and preparation of advertising materials
4. Contacting employers: calling together the invited employers, discussing their needs, explaining how best to use fairs in order to assure success.
5. Screening the unemployed at PES and selecting those that meet the profiles of the fair job employer openings. Selected candidates might be invited to a PES session some days prior the fair for information and advice, support in CV preparation and readiness for interviews with employers.
6. Job fair implementation; right after the fair employers exchange with the PES on the process and the results, experiences for lesson learned. A very important factor is the collection of results so that PES can document the placement rate due to the job fairs.

#### **4. PES, vacancies and employer contact services**

For Public Employment Services vacancies are an utterly external factor, that is PES cannot 'create' vacancies, but only capture existing ones. The only exception being public work programmes organized and sponsored by PES. Thus the ability of PES to place job-seekers is limited by the availability of vacancies.

Data on job vacancies is critical for assessing the demand for labour as well as for assessing skills shortages. Registration of vacancies and their advertisement is therefore one of the main activities for PES. For being able to effectively execute their core activities it is considered vital for PES to register as many vacancies as possible.

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<sup>116</sup> See: Economic and Social Policy Institute (2006), 'Assessment of the Effectiveness of ALMP', Mimeo. Belgrade, September 2006.



#### **4.1 Capture of vacancies**

In most Western Balkan countries, as well as in the majority of EU countries (with the exception of Belgium, the Czech Republic, Finland, Hungary, Luxembourg, Romania, Slovenia and Sweden) employers are not obliged to register any vacancies to the PES. In Albania and Montenegro, however, employers are required to do so. Although in Montenegro this is mainly for statistical purposes, whereas in Albania employers failing to report vacancies can be fined 7,315 Euro. In the former Yugoslav Republic of Macedonia there is a right, but no obligation for notifying available vacancies. Public institutions, public enterprises and other legal entities performing public services, governmental authorities and local self-government bodies are obliged to publicly notify job vacancies in at least two papers and there is a general obligation to register new employment contracts with the PES.

The Employment Agencies in Bosnia and Herzegovina are not directly notified about job vacancies, since this is not mandatory. However, some employers inform the agencies about current vacancies and ask for intermediation services. In FBiH, cantonal agencies received information about 1,343 vacancies in 2009, a decrease compared to 2008 (1,947 vacancies) and 2007 (2,280 vacancies) which can largely be ascribed to the reduction of vacancies due to the global economic crises rather than a decline of cooperation by employers. In the Rep. Srpska, a survey conducted among 2,289 companies (employing 47% of the total employed people in RS) has shown that around 16% of them announce their vacancies through the Employment Agency. However, recently an agreement has been reached between the Employment Agency of FBiH, the Association of Employers of FBiH and the Trade Union of FBiH which requires employers to announce their vacancies to the PES.

In Serbia on the other hand reforms went in the opposite direction. Until 2009, employers were obliged to report vacancies to the PES. However, the data had been confusing and almost doubled the real number of the employers' needs, as the registration of vacancies was designed in such a way that many vacancies were counted several times. Now, the obligation has been lifted and employers approach the PES mainly when they are seeking job brokerage. Thus the number of vacancies recorded by the PES is currently underreported regarding the total number of vacancies in the economy but the data is considered to be more realistic in terms of notifying the number of real needs.

In EU Member States, compulsory vacancy reports have not proven to be very useful. Compulsory reporting causes an administrative burden for the employer and is thus counterproductive in terms of 'service to employers'. But suspending the duty for reporting can also have negative consequences (e.g. fewer registered vacancies than before, as demonstrated in the Serbian example above). Thus reforms need to go hand in hand with improved services for employers and a positive image campaign.

Currently the passive approach by PES of waiting for the employers to post vacancies mostly still predominates, with little effort put into marketing the service. However, most Western Balkan countries do not entirely rely on the notification of vacancies by employers, but are trying to capture vacancies also via other sources, mostly at least from media sources (newspapers) or organized job fairs. In the former Yugoslav Republic of Macedonia, employers can register vacancies in the PES web portal. However, these vacancies are gathered by the PES, but not substantially controlled and cleared. In order to increase the number of vacancies captured, employment counsellors in Croatia visit their assigned employers twice a week, those employers who did not ask for intermediation services before, even more frequent.

In Serbia, however, the PES does not capture vacancies through other sources than (voluntary) notification by employers. Although counsellors follow vacancies announced in newspapers and websites in order to provide assistance to their clients, those data is not registered in the PES databases. Similarly, there is a PES website where employers can enter their vacancies and job seekers can access them, but this data is also not added to the vacancies reported directly to front office staff. Thus the official number of vacancies registered by employers is rather small. Private employment agencies are currently in the process of creating their own database on the number of persons looking for jobs and vacancies notified by employers. This data is planned to be exchanged with the PES on semi-annual basis.

#### ***4.2 Operation of websites for employers and job seekers***

All PES of the region have websites (the only exception being Kosovo), but not all websites contain information concerning vacancies. In Bosnia and Herzegovina for instance the website is mainly used for public relations, providing information about the PES, recent activities and projects as well as basic statistical data on unemployment. Also in Albania the PES does not operate a website where employers can enter their vacancies (or job seekers look for them). However, a pilot project is being implemented in Tirana and Korca regional offices, with the purpose of computerizing the PES service. That means that employers can enter their vacancies and other information related to them, and the registered unemployed are able to access the relevant information. The website of the PES in Montenegro on the other hand, is comparably advanced. All interested job seekers and employers can search the PES website for existing vacancies and supply for labour. Likewise, job seekers and employers can – after a simple web registration – post their CVs or a short job profile. Table 2.6 provides a short overview of the functions of the PES websites in the region.

Table 2.6

**PES Website functions**

Function	Yes	No
Employers and job seekers can access the databases on the PES website freely without registration	BiH, ME, MK, RS,	AL, HR
Employers can only enter vacancies after registration of basic company information	AL, MK, ME, RS, HR, HR	BiH
Self-registration of vacancies data through internet is possible and PES has no control over it	MK, ME, RS	AL, BiH*, HR
Self-registration of vacancies data through internet is possible but PES checks and clears the self-registered vacancies before they can be viewed	HR	AL, BiH, MK, ME, RS
All captured vacancies by the PES can be accessed on the website	Rep Srpska, MK, ME, HR	AL, FBiH, RS

\* Self registration is possible on the websites of some canton level PES in BiH.

Access to the vacancy database for job seekers as well as employers via internet forms a vital part in the extension of self-service facilities. Job seekers and employers can contact each other without the intervention of PES placement officers. In countries with low internet penetration rates, work stations can be set up in public premises (i.e. shopping centres, libraries, schools, ...). In doing so, the PES staff is relieved of traditional job brokering activities and can focus more on providing intensive assistance to hard-to-place and severely disadvantaged individuals who cannot find jobs through electronic services or by themselves.

**4.3 Notified vacancies**

The transition period in the Western Balkan countries was characterized by non-sufficient job creation and a lack of vacancies, which created serious barriers to the ability of PES to conduct successful job matching activities. Recently, there is in general a further decline in proclaimed vacancies in the region, which can to a large extent be ascribed to the effects of the economic crisis. Tables 2.7 and 2.8 give the examples of Croatia and Serbia, where we can see a significant decrease in notified vacancies for 2009. The tables also show the considerable share of temporary contracts, which is in Croatia more than 80% and 60-70% in Serbia.

Table 2.7

**Croatia: Vacancies and employment, PES register**

	2006	2007	2008	2009
Vacancies	130,517	141,487	141,794	102,427
Employed	149,460	146,689	128,228	118,286
- full time	22,438	25,606	23,941	17,186
- temporary	127,022	121,083	104,287	101,100

Source: CES Yearbook and Monthly Statistics Bulletin, various issues.

Table 2.8

**Serbia: Registered and filled vacancies, full-time and temporary employment  
over the period 2006-2009**

<b>Vacancies</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Registered vacancies	707,140	758,832	790,261	516,116
Filled vacancies	631,535	695,508	737,725	642,989
<i>of which:</i>				
full-time job	248,866	274,648	281,002	201,962
temporary job	382,669	420,860	456,723	441,027
full-time job, in %	39.4	39.5	38.1	31.4
temporary job, in %	60.6	60.5	61.9	68.6

*Source:* PES, Business Reports 2006-2009. The data on vacancies for 2009 is not methodologically comparable with the previous time series, due to changes of the 2009 Law on employment and insurance from unemployment. Employers are not obliged to recode every vacancy according to new rules, so that the number of registered vacancies is underestimated comparing to the previous period, but more realistic in terms of notifying the number of real needs.

In Montenegro, too, the number of vacancies dropped substantially from 64,854 notified vacancies in 2008 to 47,546 vacancies in 2009. In the former Yugoslav Republic of Macedonia the number of notified vacancies in 2009 was 269,861, out of which 172,750 were placed in employment (64%).

There is a general lack of data concerning vacancies directly filled by PES. Table 2.9 presents an overview about filled vacancies in Albania by type of action. Filled vacancies are mainly operated by PES and there is a high share of vacancies filled through job brokerage (78%) and slightly more than 11% through ALMPs.

Table 2.9

**Albania: filled vacancies**

<b>Filled vacancies</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
(1) Total	14,277	10,261	12,611	11,907
(2) From ALMPs	2,134	0	1,564	1,322
in %	14.9	0.0	12.4	11.1
(3) Job brokerage	9,832	8,463	9,554	9,314
in %	68.9	82.5	75.8	78.2
(4) Other means	2,311	1,798	1,493	1,271
in %	16.2	17.5	11.8	10.7
(5) Other employment	14,451	10,796	7,084	4,604

*Note:* Row (1) = (2)+(3)+(4). 'Other means' at (4): employment after a training course or if an individual finds employment on his/her own. (5) includes filled vacancies not captured by PES. Data relate to permanent jobs only.

#### **4.4 Employer contact services**

Employer contact services to meet employer needs and promote continual use of employment services form a vital part of PES activities. By identifying job related skills and knowledge needed by the employer, PES counsellors can match applicants skills and refer the best qualified applicants to employers. Typically, employer contacts are established through work place visits, telephone contact, e-mail or local employer group meetings.

As presented in this sub-chapter, most PES in the region are quite passive when it comes to the take up of vacancies, which is generally low, and predominantly rely on notifications by employers. However, except for cases where notification is compulsory, most employers do not need to report their vacancies to the PES as they have enough applicants without it. The usual way of hiring for (as well as finding) vacancies is still through informal channels (including friends, acquaintances, relatives, references from existing employees, schools and consultants) or advertisements in the mass media. Another challenge for PES is the fact that the enterprise sector in most countries in the region is dominated by a large number of microenterprises and it is a difficult task to keep track of employers in microenterprises.

Employers will only seek the assistance of PES in filling vacancies if they expect to find job seekers with the preferred skills or experience. In this respect, however, there is so far still much dissatisfaction among employers with the performance of most PES in the region. Some PES of the WBCs, however, try to tackle this problem with the organization of job fairs, which are widely used in Serbia and more recently also Albania, to support services to employers. There is also much room for improvements in terms of making the websites of the PES in the region a genuine and useful (self) service point for job seekers as well as employers.

#### **5. Vocational education and training**

A highly educated and skilled labour force is more productive and adaptable to economic structural changes and the emergence of new technologies. The interaction of education and labour market policies plays a central role in terms of ensuring an adequate labour supply and developing an adaptable workforce. Vocational education and training provision are important instruments for enhancing the employability, productivity, and income earning capacity of youth that will ease transition from school to work and for adults who will need re-conversion training. Therefore it is important that Public Employment Services and (vocational) education and training providers closely collaborate with the objective to ensure a better match between the demand and supply side of the labour market.

VET and adult learning thus form an important part of the 'enabling side' of activation. This sub-chapter will look into issues such as quality of and access to VET; the links between the education system and the labour market (including the matching of skills and demand); the interplay between PES and Vocational Training Centres (VTC) as well as adult learning. Before addressing these issues, however, there will be a brief overview about the legislative and institutional developments in the field in the WBCs.

### **5.1 Legislative and institutional developments in the WBCs concerning VET<sup>117</sup>**

Responsibilities for VET are usually shared between the Ministries of Education and the Ministries of Labour (in Serbia the Ministry of Economy and Regional Development). In Bosnia and Herzegovina the situation is particularly complex as education and employment policies fall within the competencies of the entities, with the state level exercising only a coordinating role.

Reforms of the VET and adult learning systems are discussed and have started to be introduced in all countries of the region, but so far a comprehensive lifelong learning strategy is missing. Capacity building in the WBCs is supported by a range of donors, particularly the EU CARDS and IPA programmes, but also the World Bank, ILO, UNDP and many bilateral donors. As part of this process, pilot projects have been implemented and VET reforms have been designed and started to be implemented in all countries of the region. The reform projects are ambitious on paper and include for instance setting up national councils, professional institutions and national certification systems, establishing links with the labour market, developing new curricula and teacher training. The number of VET profiles has been substantially reduced in most countries and these profiles are being organized in clusters. Adult learning has also been given more attention.

In Croatia, for instance, the Vocational Education and Training Act was adopted in February 2009 after an extensive consultation process. The Act newly defines vocational qualifications, VET curriculum with an emphasis on enterprise based practice, VET quality assurance, tasks of the Agency for VET, the multi-stakeholder VET Council, and Sector Councils. It significantly reinforces social partnership in VET and provides a legal base for developing the Croatian Qualifications Framework (CROQF). It sets the time frame for developing new qualifications by 2012 and VET curricula by 2013. In Albania a National Qualification Framework (NQF) has been developed. NQFs are also under preparation in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Montenegro. In Kosovo, the 2006 Law on Vocational Education and Training seeks to adjust the VET system to European standards. Furthermore, EU programmes (IPA 2008 and 2009) fund a

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<sup>117</sup> For an overview on some legislative and institutional development milestones in the WBCs concerning VET, please see Annex 2.

sector-wide approach in education, the development of VET quality assurance, the accreditation and development of the National Qualifications Authority and the National Qualification Framework, the development of vocational and in-company training schemes and the development of entrepreneurship skills. Implementation started in October 2009 and will last until 2011. In Serbia the National Action Plan for VET, adopted in March 2009, defines the following priority areas: Social partnership and VET; National Qualifications Framework; Curriculum development; Professional development of teachers, associates and instructors; Career guidance and counselling; Entrepreneurship.

Several reforms are on-going, but in general they often lack appropriate consideration of implementation issues, particularly in terms of institution and capacity building. Furthermore, reforms often suffer from a slow pace and a lack of continuity as a result of political changes and hesitancy toward education reforms.<sup>118</sup> In order to establish coordination between the main stakeholders at central level Economic and Social Committees and National Education (or VET) Councils have been set up and cooperation with the social partners in the design of education and training policies is improving, although it still remains weak (see the Box 2.4 below) However, according to an ETF analysis, their functioning is still weak in most countries as they lack both sufficient resources and the actual commitment of the institutions that participate in them. In addition, they are often dominated by representatives of the education side and therefore their capacity to increase the responsiveness to the labour market is rather weak. Their focus is on higher education, while VET issues are rarely dealt with.<sup>119</sup>

Box 2.4

#### **The role of Social Partners in employment and education/training policies**

Social partners in the Western Balkan countries face many challenges, with low rates of trade unionization, low affiliation rates to employers' organizations (especially among SMEs), and limited financial resources and capacities. Because of the rather weak capacities of the social partners, partly also due to the lack of tradition of direct, structured dialogue between employers and trade unions, the governments are still taking the leading role in all aspects of planning and designing of labour market and VET reforms. However, over the last decade, there has also been a trend for governments to start establishing institutional structures and legal frameworks which allow for a more participatory approach. Thus, more and more institutional mechanisms (such as VET councils, occupational sector councils, national qualification frameworks and VET agencies and centres) do have social partner participation, and are evolving, although social partners in the region often still feel that they are ignored or marginalized when it comes to critical decisions.

The degree of involvement of the social partners in the establishment and management of education and training policies varies between the countries, with a particularly high involvement in Albania and Kosovo. When it comes to financial contributions of the social partners to VET initiatives, trade

<sup>118</sup> See European Training Foundation ETF (2007), Labour Markets in the Western Balkans, Challenges for the Future.

<sup>119</sup> See European Training Foundation ETF (2007), Labour Markets in the Western Balkans, Challenges for the Future.

unions in the region do normally not make financial contributions (except for BiH and Kosovo), and employers only to a very limited degree. Kosovo, BiH and Albania have the highest contributions, and Montenegro and Serbia the lowest. Furthermore, social partners are almost not involved at all in defining and monitoring the quality and output of VET, only in BiH and Croatia to a limited degree.

In conclusion, although there has been some progress in the last decade, social partners in the region still lack the skills and the capacities, such as analytical, negotiation, communication and other skills needed for complex policy issues which require integrated approaches.

## **5.2 Access to and quality of VET**

The share of enrolment in vocational education at secondary level in the WBCs is relatively high compared to the EU average. It is usually well beyond 60%, with the highest rates for VET involvement in Bosnia and Herzegovina (76%), Serbia (75%) and Croatia (73%). In the EU 25 the share is only 36%, in Bulgaria 54% and Romania 65%.<sup>120</sup> The only exceptional case in the region being Albania where enrolment in VET was dramatically reduced to 17% as a consequence of the collapse of the secondary VET system at the very beginning of the transition period when the number of vocational schools decreased from 308 in 1990 to about 40 in recent years.

The high levels of enrolment in vocational education at secondary level compared with the EU average might be explained by the shaping of the education system to serve the needs of a traditional industrial economy, reflecting the importance of secondary level qualifications and skills in that economy. However, according to a World Bank study in 2007 employment and unemployment rates are not better for vocational graduates than they are for those who completed general secondary programmes, although vocational education is much more expensive. In Bosnia and Herzegovina 56% of vocational and 53% of general education graduates were employed, but general graduates had a somewhat lower unemployment rate with 27% compared to 33% of their vocational school counterparts. In Albania, although vocational schools have three times higher unit costs, they do not provide better employment outcomes than general education schools. Higher unit costs of vocational education can be explained by lower teacher student ratios, more non-teaching staff, larger premises and more student stipends.<sup>121</sup>

The four-year vocational programmes in the WBCs usually offer opportunities for access to higher education, but the development of a system of flexible pathways (e.g. links between vocational education and general education at secondary level) is still extremely weak to almost non-existent. The four-year vocational programmes are held in relatively high esteem, however the three-year programmes are usually rather a dead-end track with few opportunities offered for pathways into general or higher education. In Albania and Kosovo,

<sup>120</sup> All 2006 data, source ETF database.

<sup>121</sup> The Labor Market and Education and Training in the Western Balkans, World Bank, June 2007.



vocational education in general has a quite bad reputation and is often seen as last resort for low performers or students that did not get a place in general education.

In all countries there have been substantial efforts to reform the VET system in order to provide young people with quality education and training opportunities that prepare them for the labour market and keep their options open throughout their education careers and thereafter. However, despite these reform efforts (such as for instance the broadening and revision of curriculum profiles, many of them competence based and modular), vocational secondary education still suffers in all WBCs in terms of relevance of knowledge as well as quality. It is characterized by out-dated curricula, a weak infrastructure (including school buildings, laboratories and workshops for practical training), limited provision of practical training and teachers in need for adequate training to incite new knowledge and learning attitudes to students. However, while all WBCs are suffering from these problems, they do not do so to the same extent. For example, in Croatia both pre-service and in-service teacher training for VET teachers are well developed, while in Albania there is no such system but only sporadic and isolated intervention on the part of several actors in in-service teacher training for VET teachers. In Kosovo and the former Yugoslav Republic of Macedonia some VET schools operate in a shift system as the number of students exceeds the institutional capacity.

Largely supported by foreign donors, a number of initiatives have been undertaken to improve the quality of VET in delivering competences and skills more relevant to labour market demands and to move towards competence-based outcomes, but transferring pilot work to a system level has so far been hindered by the lack of a dissemination strategy involving the search for adequate resources for teacher training and for equipment for practical trainings, and for new financing mechanisms. There seems also to be a lack of coordination and consistency partly at least based on different concepts and philosophies of various EU experts involved in the design of the VET curricula and those of national actors involved<sup>122</sup>.

Ensuring quality and accessibility to VET is a substantial challenge in all WBCs. As a consequence, vocational education at secondary level is criticized by many employers, and access to employment following graduation from VET schools is difficult. Furthermore, improving access to education and training for young people from more disadvantaged groups has still hardly been addressed.

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<sup>122</sup> European Training Foundation ETF (2007), Labour Markets in the Western Balkans, Challenges for the Future.

### **5.3 Links between the education system and the labour market and the matching of skills and demand**

A well developed and labour market oriented VET and adult learning system, providing a lifelong learning perspective and flexible pathways between education and work, is crucial to address two serious problems in the region: the high youth unemployment rate and the high rate of unskilled or low skilled workers. Youth unemployment rates (15-24 years old) range from estimated more than 70 % in Kosovo, more than 50 % in the former Yugoslav Republic of Macedonia and almost 50% in Bosnia and Herzegovina to 25% in Croatia (compared to 20.8 % in Romania, 16.2 % in Bulgaria and 19.6 % in EU 27, where youth unemployment is most pronounced in Spain with 37.8 % and the Baltic countries ranging between 27.5 % and 33.6 %<sup>123</sup>). Following the outbreak of the financial crisis youth unemployment has increased in all European countries from 2008 to 2009 – often significantly. This makes it even more urgent (but due to ever tighter budgets also more challenging) to address the problem – in the Member States as well as in the Western Balkan Countries. Vocational Education and Training plays a crucial role thereby – without equipping youth with the skills and knowledge they need to succeed on the labour market, the problem of young people who cannot find a job is shifted to the Employment Services<sup>124</sup>.

But not only young people lack the skills to compete on the labour market. The Western Balkan region is characterized by a significant lack of skills or skills mismatches, reinforced by the restructuring of the economy. The lack of a skilled labour force creates a risk that the respective country will become trapped in subsistence and low-value-added economic activities, thus impeding long-term development. Yet, in many countries in the region the move to knowledge-based jobs has not really materialized and many job offers require only basic qualifications. On the other hand, there is also a noticeable shortage of qualified workers in the region. This can to a large extent be explained by the fact that significant numbers of people are trained in fields that are not needed by the labour market: training profiles are often outdated, as is learning material and equipment. In Albania for instance, labour market needs for training are in the areas of the processing industry, construction, commerce and services, while the offer is in foreign languages, hairdressing and computing. However, there is not just labour market mismatch in terms of educational and occupational differences in labour supply and demand, but also in terms of the quality of education and training. PES records in the former Yugoslav Republic of Macedonia for example show that there is a concentration of unemployed workers in the same or closely related occupations. This might imply that the lack of previous experience, additional skills and knowledge as well as the detachment from the labour market make these individuals non-employable despite available job vacancies in their occupation.<sup>125</sup>

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<sup>123</sup> For WBCs National LFS, for Croatia, and EU Member States: 2009 data, Eurostat.

<sup>124</sup> For more information on youth unemployment, please refer to chapter 1 (activation), sub-chapter 3.5.2.

<sup>125</sup> Euro-Balkan Institute (2009), Labour Market in the former Yugoslav Republic of Macedonia, A study for the European Commission, Employment, Social Affairs and Equal Opportunities DG, 2009.

In the whole region, technical skills, including those of young people, are often insufficient and key competences, such as using ICT, communication skills in the mother tongue and a foreign language, numeric skills, motivation for work, team work, problem solving and independence and self-initiative are frequently underdeveloped. Skills needs are nowadays changing at an accelerating rate, following close global competition and the development of knowledge, technology and organizations. Thus, learning-to-learn skills and other key competences become increasingly important in VET. Yet, vocational curricula are often extremely narrow in content (such as for instance in Bosnia and Herzegovina, Montenegro and Serbia) so that VET fails to keep up with the requirement of adaptability and flexibility of a rapidly changing labour market.

With the possible exception of Croatia, where a 'dual' system of schooling with work placement is in place, there are currently very few links between school and the world of work. VET schools have little information on labour market needs. This might be explained by a number of factors: VET schools usually have little autonomy; the importance of the grey economy (which hampers the functioning of the labour market as well as the process of transition from school to work); the legacy of the socialist system; and the apparent lack of interest on the part of employers in training issues, particularly in situations of very high unemployment. Therefore a great challenge is how to motivate the private sector to invest more in infrastructure and to participate more actively in education and training programmes, which are usually still considered to be a public task.

Another challenge is the development of medium and long-term skill needs analyses. During the transition process the links between education and the economy were disrupted and there is an urgent need to strengthen this link again and to reinforce the analysis and forecasting of labour market needs as well as to improve data collection. In a number of countries (such as Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and Serbia) training needs analyses are being conducted through ad hoc employers' surveys. Still, in all WBCs, the labour market is lacking the ability to signal more clearly the existing and future quantitative and qualitative competence needs to the VET system.

#### **5.4 PES and Vocational Training Centres**

In the Western Balkan region, only PES in Albania, Croatia and Montenegro operate their own training centres. The PES in the remaining countries cooperate with public and private sector agencies.

In *Albania*, the PES manages 10 public training centres, employing 110 individuals. The PES finances the vocational training centres (VTC) (salaries, teaching materials, running costs), monitors them through central inspection and proposes the directors of the centres.

Periodic labour market surveys by the PES shall ensure that the VTC are best oriented to the regional labour market needs. However, so far, the studies cannot be considered as representative as they consist only of small samples and focus mainly on enterprises that have contracts with employment offices. According to the study of the PES in April 2008, approximately 27% of employees with a low level of education received on the job training. The study suggests that most of the enterprises prefer to offer on the job training rather than training by private or public centres, but only a small percentage (26%) allocate a budget for training.<sup>126</sup> Private centres are in a priority position compared to public centres because private providers have a higher number of centres and are more effective (e.g. the normal employment rate of a public VTC is approx. 10%, whereas the rate of the private Don Bosco training centre is almost 100%). Private centres are more market oriented, offer a wider variety (and flexibility) of courses and collaborate more closely with businesses in terms of on-site training. Due to the financial autonomy of private centres and their higher tariffs there is also more room for investment in modern technology and materials.

In *Montenegro*, the PES structure includes one business unit operating three regional training centres. The PES is also providing expertise to the Council on Adult Education, which provides advice and defines the overall input of VET.

In *the former Yugoslav Republic of Macedonia* labour market training is mainly delivered by the employer as on-the-job training or by training contractors. On-the-job training is financed by the PES and is solely demand-driven, that is employer-specific, which secures high placement rates of participants.

In *Serbia* the Ministry of Education set up regional training centres based on existing vocational schools with the support of the CARDS programme. In close cooperation with the PES, regional training centres are expected to provide some career guidance activities, including information, counselling and guidance in the selection of programmes, training and career guidance in education according to individual preferences, the needs of the local community and the labour market. Furthermore, the PES has a network of 26 business centres which provide trainings for future entrepreneurs and beneficiaries of subsidies for self-employment. Serbia is also purchasing training programmes from various private providers through public tenders.

In *Bosnia and Herzegovina*, labour market training is predominantly delivered by secondary schools. This, however, may replicate failures of the education system and employment services may consider developing a training delivery system using competency-based approaches. Further training providers include universities, a few adult training centres and various non-governmental providers offering courses in entrepreneurial skills, ICT, foreign

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<sup>126</sup> Llaci, S. Et al (2009), Skills Development Policies in Albania: The Role of National and International Actors, 2009.

languages and work-related training for disadvantaged groups. There is currently much scope for improving procedures for contracting out labour market training to private providers and enterprises, as well as the monitoring of training outcomes.

In *Kosovo* public VET is provided by formal education and training providers under arrangements of the Ministry of Education as well as by Vocational Training Centres (VTCs) within the structure of the Ministry of Labour. There are no standardized assessment arrangements or external quality assurance of certification. This means for instance that certificates issued by institutions that are not licensed by the Ministry of Education, e.g. the vocational training centres of the Ministry of Labour as well as non-formal providers, are currently not recognized. Employment offices cooperate with the VTCs operated by the Ministry of Labour. With the support of the Grand Duchy of Luxemburg, capacity building for VTCs has so far particularly focused on skill training, modernization of obsolete equipment, rehabilitation of workshops, and transport subsidies for poor trainees in rural areas. The main objective of the programme is to contribute to the long-term reduction of poverty by providing fair and impartial access to good quality training.

### **5.5 Adult learning**

The scope of adult learning spans all formal, non-formal and informal learning undertaken by adults to 'improve knowledge, skills and competences'.<sup>127</sup> This section focuses however mainly on the skills that people need to be able to adapt and remain employable in the labour market and the employability skills that help people to move out of unemployment and marginal employment. Given the low skills level and high unemployment rates in the region, adult learning can play an important role in helping adults to re-enter the labour market through pre-qualification and/or further qualification. It can also help in supporting young people to cope more easily with the transition from school to work, ease regional disparities and promote social inclusion for more disadvantaged groups. Investment in people's skills ('hard' as well as 'soft' skills) following a lifelong learning concept forms a central part of integrated measures to tackle chronic unemployment and ensuring adaptability of the workforce.

Western Balkan Countries have started to acknowledge this key role for adult learning. Except for Albania and Bosnia and Herzegovina, all WBCs have Adult Education Strategies and Laws in place (in Serbia an Adult Education law is currently in preparation, in Bosnia and Herzegovina a Law on Adult Education has been adopted in 2009 in the Republika Srpska). Yet, adult learning responses in the countries can mainly be characterized by being 'uncoordinated, scattered and often driven by donor's objectives,

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<sup>127</sup> Communication from the European Commission: 'Making a European Area of Lifelong Learning a Reality', Brussels, 2001.

with the result that there are many learning needs that are not being met.<sup>128</sup> The challenge in WBCs is to create effective partnerships at all levels, national, regional and local, to support the development and implementation of adult learning strategies. Some structures to involve social partners and other stakeholders already exist or are in the process of being developed: the Commission and Council for Adult Learning in Montenegro, the National Economic Human Resource Development Council in Kosovo, the National Council for Education and Training and the Local Partnership Councils in Serbia, the Council for Adult Education and the Municipal Human Resources Councils in the former Yugoslav Republic of Macedonia. However, less emphasis is placed on how to make partnerships work effectively and build consensus.

Overall, the participation of adults in lifelong learning programmes is still very limited in the region, though comparable with the newest Member States Bulgaria and Romania. In Croatia and the former Yugoslav Republic of Macedonia for instance adult participation in education and training (as percentage of the population aged 25-64) is 2.2% respectively 2.5%, compared to 1.4% in Bulgaria and 1.5% in Romania, but 9.5% in EU27 and 13.9% in Slovenia<sup>129</sup>. However, in Kosovo, the rate of participation in post-compulsory education and training is nearly, if not absolutely, the lowest in Europe.<sup>130</sup> Particularly in Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia there is little awareness among the population as well as key stakeholders of the concept of adult learning. Furthermore, few incentives exist for individuals as well as companies to engage in further learning and training. There is also a need for creating consistencies and better efficiencies between initial and continuing VET structures and philosophies, particularly in Albania, Bosnia and Herzegovina and Montenegro.

Nonetheless, the starting point for adult learning in the region is not a vacuum, as a strong adult learning tradition existed at least in the former Yugoslavia in the past, but adult learning declined as the economic and social situation deteriorated and war disrupted life. However, even before the collapse of the former political system severely disrupted adult learning, participation was not evenly spread across the region. Provision was always more developed in Croatia than, for example, Kosovo, and continues to be so today. Adult learning is, however, a key issue in all countries where war and industrial restructuring have left behind a large proportion of the active population (e.g. Croatia, Serbia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and even more recently Kosovo).

There is also much scope for an improvement of employers' involvement in adult learning. The interest of companies in education and training of their employees/workers is low,

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<sup>128</sup> Designing Adult Learning Strategies – the case of South Eastern Europe, ETF 2006.

<sup>129</sup> Eurostat data.

<sup>130</sup> ETF (2008), HRD Country Analysis Kosovo, Working Paper 2008.

which can partly be explained by the high unemployment level. There is little training by enterprises in the region, according to World Bank data the rate of firms offering formal training to employees reaches 29.5% in the former Yugoslav Republic of Macedonia, 33.2% in Albania, 39.5% in Serbia and 42.4% in Bosnia and Herzegovina, compared to 62% for instance in Slovenia, but also always more than in Romania and Bulgaria (25.3% respectively 28.1%).<sup>131</sup> In the current economic crisis, large companies are increasingly reluctant to pay for employee training and there is a tendency to externalize the cost of adapting the workforce to changing needs. Other persistent difficulties regarding low in-company training are the type of production, the size of companies (micro and small size) and mentality of non-investment in human resources.

Furthermore, in most countries, labour market training receives very limited amounts of funding, and the funds are used in a selective way that mainly benefits those who are most qualified. The role of employers in terms of choosing the skills for which training should be offered is not very developed. There is insufficient information on the demand for adult learning and on the skill needs of enterprises and individuals, which makes it virtually impossible to determine accurately what the priorities in adult learning should be. Particularly, the exact needs of unemployed individuals are not known, since there is, in general, no assessment of their current knowledge levels, on which training courses could be built. Systems for the recognition of prior, non-formal and informal learning are only started to be developed (recently also in Kosovo). Much current provision is supply driven, a shift to the demand side would ensure that provision meets the needs of enterprises and individuals and that it is market-oriented.

In general there is little data, information and research on adult learning in the region. This includes numbers and types of adult learning providers in each country and the quality of their provision. Once this information is available it should be possible to identify serious gaps in provision at different levels and in different areas, and for the regional or local partnership to encourage networking and links between providers and users. Key priorities for providers include training the trainers to ensure that learning is based on up-to-date teaching practice and updating its content to meet new labour market needs. Comprehensive quality assurance systems to assess the validity and effectiveness of adult learning are lacking in the region.

The lack of opportunities for knowledge and skill enhancement in the field of adult learning, and the frequent involvement of this section of the population in low-added-value, low-productive economic activities (in agriculture or the informal economy) creates a challenge for the further development of socially inclusive economies.

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<sup>131</sup> ETF Country Plan 2010-12 – Serbia.

## **6. External support and assistance<sup>132</sup>**

International actors play an important role in the development of the Western Balkan region. Their contribution is not only multi-dimensional (such as technical assistance, direct investments, capacity building etc. and in different fields such as environment, education, infrastructure, employment, etc.), many countries are also heavily dependent on foreign financial support, particularly Albania, Bosnia and Herzegovina, Kosovo and the former Yugoslav Republic of Macedonia. Among the most important donors operating in the regions are the European Union, the World Bank and the United Nations (through ILO, UNDP, UNICEF, etc.). Major bilateral donors include the US, Switzerland, Canada, Japan and various EU Member States.

In terms of development, some countries seem to follow a rather donor-driven (or donor-waiting) approach while others follow more a home-grown pattern. Within the first model, the country does not (substantially) embark on a reform (or perhaps is leaving it to a later stage) without any donor initiative or support. Examples for this approach include for instance the former Yugoslav Republic of Macedonia and Albania, where reforms and innovations heavily depend on external assistance. The risk of this approach is policy transfer from donor countries which is often lacking contextual embedding as well as adaptation to the local context. There is also a high risk that the donor-funded policy or practice development project is not sustainable and finishes as soon as the donors depart, since local stakeholders do not have real ownership of the policy or practice. In fact, the whole region faces some problems with regard to sustainability of (donor supported) pilot projects (see also section on challenges below).

In applying the home-grown model on the other hand, countries are launching policy and practice developments at their own initiative and interest over time. These projects may in some instances be complemented by donor funding, but benefit from a high degree of ownership of the respective country. In the field of career guidance Montenegro is a good example of this model. However, even in the home-grown model, sustainability of the policy or practice is not necessarily guaranteed.

### **6.1 Scope of financial support by donors**

As pointed out above, for many years the Western Balkan countries have benefited from an influx of massive funding from the EU, bilateral and multilateral donors, thus compensating shortage of national funding. These funds have also been a major source of innovations introduced in the employment policy field and education system (e.g. VET). Donors have helped carrying out badly needed reforms, which – in some countries – would have been impossible to achieve without them.

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<sup>132</sup> See also annex 3 on donor coordination



In Kosovo for instance active labour market programmes are heavily dependent on foreign support and would not sustain without it. One example for this is the Active Labour Market Programme for Youth implemented by UNDP in partnership with the Ministry of Labour and Social Welfare and the Ministry of Education, Science and Technology and financed by Norway.

In Serbia, ALMPs projects implemented with donor support in the period 2004-2009 amounted to more than EUR 24 million and focused strongly on capacity building. Current projects include for instance 'Technical assistance for the NES building capacities in data management, forecasting, monitoring and evaluation (EUNES) 2010-2011', 'Support to National Efforts for Promoting youth Employment and Migration Management 2009-2012', 'Youth Employment Promotion in Serbia 2009-2011', and the 'Development of a Network of Innovative Social Enterprises (ISEDE-NET) 2009-2012'. In 2009, contributions from foreign countries and international organizations accounted for 0.19 % of PES income and revenues.

In Croatia contributions by international organizations to the revenues of the PES are somewhat higher, amounting to 0.70 % of total revenues. Furthermore, a significant increase is foreseen for 2010 resulting in contributions of 3.9 % by international organizations.

## **6.2 Challenges related to donor support**

Sustainability. An important issue in the region is the sustainability of (pilot) projects funded by external donors. Research in Albania for instance concluded that 'few pilot projects received follow up by the local actors independently and few were implemented successfully nationwide.'<sup>133</sup>

Leadership. A way to increase the sustainability of projects is clear and strong national leadership in the respective reform field. In countries, where no clear leadership can be attributed, there is a 'ping-pong' risk, with one actor expecting another to move first and as a result nobody is moving. An example for this is the VET field in the former Yugoslav Republic of Macedonia: The Ministry of Education may expect something from the Education Agency, which in turn expects policy delivery from the VET Agency, which is waiting for the Ministry to take lead, etc.

Ownership – Collaboration with national stakeholders and experts. Aid is most effective when it supports a country-owned approach to development and the project is therefore embedded in the national context. Representatives of national institutions are usually part

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<sup>133</sup> LLaci, Tabaku, Dibra 'Skills Development Policies in Albania: The role of national and international actors', 2009. p. 60.

of working teams and are often employed as local experts. However, sometimes adjustments by these national actors according to the relevant national context are not considered by international actors. An example for this is the national labour market survey in Albania financed by CARDS in 2005. The study was not effective because the questionnaire was not adjusted to the different sample audiences (enterprises and individuals) in terms of language (poor translation) and unclear concept use (such as 'Total Quality Management' among other little known concepts). Therefore the survey did not help the PES to better align training centres with local needs<sup>134</sup>.

Avoidance of overlapping and duplication. Further strengthening of donor coordination is vital to avoid overlapping/duplication of projects. Steps have already been taken in this direction (see section below on donor coordination), though cases of overlapping or disregarding of already achieved results still prevail to a certain extent.

## **7. Summary conclusion**

PES are the key actors to implement activation policies. Carrying out those policies requires particular capacities. Activation strategies can only be successful if there are adequate resources and structures in place. Both is still lacking in most WBCs. PES in the Western Balkan countries had to face many challenges related to transition including: privatization and industrial restructuring with mass lay-offs, consequences of war resulting in a destabilized economy and the need to deal with refugees and displaced persons, the presence of large informal sector, etc. The recent economic crisis also contributes to that. During the crisis the number of PES clients is rapidly increasing thus creating higher pressure on PES to deliver their services.

There have been important reforms of the PES in the region in the last decade to make PES better equipped for the provision of modern services. The undertaken efforts mainly focused on issues such as enhanced orientation towards clients, improved labour market information, training of staff, use of new technologies and institutional reforms. However, the reform process is in many cases still 'work in progress' and further steps are needed in order to bring the PES of the region up to modern standards. The institutional capacities and quality of services have to be gradually upgraded. In many cases the reforms were actively supported by international donors bringing both their expertise and financial support. External assistance plays an important role in the region and includes important issues that stem from the experience accumulated in recent years. Among them are: the balance between 'donor-driven' and 'home-grown' models; the sustainability of piloted

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<sup>134</sup> LLaci, Tabaku, Dibra: Policy transfer or policy learning: Interactions between international and national skills development approaches for policy making. Paper prepared for the NORRAG Conference 2009.

reform initiatives; embedment in the national context; clear national leadership, ownership and commitment; coordination of donor support – avoidance of overlapping and duplication.

Currently the PES in the region are public institutions under the supervision of the Ministries of Labour or Ministry of Economy (as in Serbia). Most PES are divided into three levels: a central level agency, regional branches and local offices (with some exceptions – two levels in the former Yugoslav Republic of Macedonia, complex structure in BiH, more levels in Serbia). Administration of unemployment benefits and responsibility for ALMPs is usually shared between the central and regional offices and in the majority of cases there are special departments in the PES structure dealing with those issues. Overall, in most Western Balkan countries centralized decision-making processes prevail and there are hardly any mechanisms in place for efficiently addressing local labour market needs. Yet, this would be particularly important given the very significant regional disparities within most Western Balkan countries. Although most of the countries have already started to discuss the issue of decentralization and launched relevant pilot projects, the capacity of regional and local PES to respond and adapt to local labour market needs is still very much underdeveloped. The size and resources of many local employment offices in the region (for instance BiH, Albania) hardly allow for the provision of modern activation services.

Sufficient and well trained staff, as well as adequate financial resources, are crucial for an effective and efficient performance of PES tasks, particularly when it comes to activation activities. However, PES in the region are mostly understaffed, overloaded and sometimes burdened with atypical functions such as administration and verification of health insurance entitlements or registration of employment contracts. The caseload indicator for WBCs demonstrates enormous work pressure put on counsellors (ranging usually between 700-800 clients per front staff worker, with the only exception of Montenegro which is with 117 clients meeting the EU standard), while the share of front-line counsellors in the total PES staff (about 50%) is in general considerably lower compared to both EU 15 and NMSs (about 70-80%). Although the level of education of PES staff is rather high in WBCs (about half of the staff have university degree), the necessity of further staff upgrading is recognized and has recently been receiving more focused attention; there is still a great need for specialized tailored trainings to strengthen the qualifications and competences required for modern employment service delivery. The fields and the quality of trainings, as well as staff motivation and readiness to receive knowledge are equally essential for increasing staff capacity.

PES financial resources are mainly coming from the state budgets (which are known to be stretched especially in times of crisis) with some contributions from unemployment insurance, which vary from country to country. PES expenditure can very broadly be classified in expenditure on active measures, on passive measures and on administration. Passive measures usually take up the highest share ranging between 59% (Albania) and

80% (Serbia, Croatia) with the one exception of Montenegro (31%). Expenditure on active measures lies between almost 7% (Croatia) and 16% (the former Yugoslav Republic of Macedonia), being only higher in Montenegro with 43%. In EU MS spending on active measures usually ranges between 60-85% of total PES expenditure. This reflects in many cases the principle of 'residual' budget allocation. Administration costs usually range between 7% (the former Yugoslav Republic of Macedonia) and 25% (Montenegro).

Although PES are structured differently in each country and possess different capacities, all of them are traditionally tasked to act as job brokers: collect and display job vacancies and work towards a rapid and suitable match between supply and demand. Job brokerage interpreted either as PES core activity or as 'soft' ALMP is an essential component of activation policies and PES activation effort. Job search assistance and counselling is relatively inexpensive (compared to other forms of classical ALMPs) and is known to help job seekers in finding employment in a shorter period and to support employers' search for job candidates.

Job brokerage activities have recently received more attention in the Western Balkan countries, what corresponds to the general trend in Europe. Next to simple and standard services of registration, interviewing, providing certain guidance, preparing administrative documents and referring to jobs, WBCs started introducing more intensive support, preparing personal action plans, providing career guidance services, albeit this is done with significant cross-country variations. Croatia, where PES significantly modernized the services in the course of one decade reforms as well as Montenegro and Serbia with specially established Centres for Information and Professional Counselling, all made considerable progress in introducing a more differentiated, individualized and diversified approach. Service portfolios were enriched in those countries with career planning and guidance services (Serbia, Montenegro), counselling activities for specific groups (like PES 'mobile teams' launched in Croatia in response to crisis lay-offs), intensified case-management of hard-to-place clients (Montenegro, Croatia). Practically all countries in the region (with the exception of Kosovo) introduced web sites which are extending (with certain country variations) the self-service facilities – direct search for available vacancies and job candidates. Thus, countries make steps to free the time of PES employees for the provision of more intensified assistance for clients who really need it. Some countries in the region actively use job fair matching instrument to fast-track the meeting of job seekers and employers. This low cost tool is considered to give good results, especially in Serbia.

In this context three key aspects are crucial for the effectiveness of PES matching efforts:

- (i) PES capacity to provide competent services to their clients
- (ii) sufficient availability of vacancies, to which job seekers can be matched and
- (iii) the presence of particular skills with job seekers.

- (i) As concluded above, PES capacities in WBCs are rather limited and in some WBCs the number of PES counsellors is totally inadequate for dealing with the increased number of unemployed people and even more inadequate in the context of delivering effective mediation services.
- (ii) Availability of vacancies also represents a serious problem in the region (non-sufficient job creation). For Public Employment Services vacancies are an utterly external factor, as PES cannot 'create' vacancies, but only capture existing ones. If a sufficient number of jobs is not generated in the economy, as it is the case in WBCs aggravated by economic downturn which already in 2009 significantly decreased the number of vacancies, the impact of job matching activities is very likely to be reduced. The presence of the large informal sector observed in WBCs makes PES matching tasks even more challenging. PES efforts to capture the vacancies under these conditions are very limited, and in combination with a rather passive approach towards employers cannot produce satisfactory results.
- (iii) Filling in of these rather limited vacancies that become available to PES contains serious challenges, mainly related to skills mismatches. The presence of particular skills with job seekers represents an important precondition for the success of PES matching activities. PES institutions as such have very limited impact on skills development as it is primarily the task of the educational system (vocational education and training, adult learning). Although some PES in WBCs (Albania, Montenegro, Serbia) have in their structure Vocational training centres, and include 'on-the-job' trainings in their active programmes, the main burden of preparing the labour force with adequate qualifications still falls on the educational system. The drawbacks of educational systems, especially of vocational and adult learning components, are recognized practically by all the countries in the region. The current prevalence of many out-dated curricula, qualifying for jobs and skills hardly needed anymore on the labour market, failure to equip young people with adequate qualifications for entering the labour market as well as the absence of cooperation with other relevant actors suggest the necessity of serious modernization and reforming, which all WBCs seem to recognize as all have started to embark in reforms. However, there is still much to be done and the improvement of PES cooperation with relevant actors from educational sectors seems to be crucial for further progress in developing activation policies.

## Chapter 3: Examination of challenges emerging from current economic crisis

### Econometric forecasting exercise 'short-run leading indicators for unemployment'

In this part we will provide policy makers with a forward looking tool that will, ideally, give the opportunity to react in time to various real-economy, financial and budgetary shocks on the labour market. Using current data on the real economy, the financial sector and the budget will allow for a forecast of the respective monthly unemployment rate changes to be expected. This will give policy makers more handling time to plan and apply ALMPs. The forecasting tool could be made available to local agencies.

#### *The model*

The applied model will deviate from traditional unemployment models (see e.g. Layard, Nickell and Jackman, 1991, or Henry and Nixon, 2000), which focus more on issues such as institutional differences. Our focus will be on real and financial crisis issues as well as the effects of budgetary constraints on unemployment. The necessary variation in data will stem from pre crisis growth periods as well as crisis periods such as the banking crisis of the late 1990s or the current crisis. The model will have the following form:

$$U = R + F + B + S + \varepsilon.$$

Monthly percentage changes in unemployment rates (U) will be explained in time series models, country by country, using real economy control variables (R) such as the percentage change of industrial production, the construction sector output, exports and the percentage change of the wage level as well as exchange market pressure (EMP) indicators (F) and a budgetary indicator (B). The F indicators should cover the effects of the financial crisis and comprise the following variables of currency crisis contagion (see Eichengreen, Rose and Wyplosz, 1996): percentage change of the nominal exchange rate, change of the difference of the current to the average short-run interest rate, difference between the percentage change of the ratio of international reserves to M1 and its average. The budgetary indicator B will include the monthly percentage change of government expenditures. The model will also include monthly seasonal dummies (S) and an error term ( $\varepsilon$ ) but no constant term.

As regards the lag structure of the different explanatory variables we will allow for up to three month lags which should give policy makers a sufficient planning horizon of one quarter of a year. The applied estimator is the Ordinary Least Squares (OLS) estimator. The applied estimation procedure is to first exclude less significant variables in cases of multicollinearity and then to stepwise exclude the least significant variable, due to the level of significance of the third lag in a general to specific (GETS) approach.

### ***The data***

All the data used in this exercise stems from the wiiw Monthly Database on Eastern Europe. Monthly registered unemployment rate data is available for all the countries of the West Balkans with the exceptions of Albania and the former Yugoslav Republic of Macedonia, where data is only available on a quarterly basis and in the latter case the source of the data is LFS. Industrial production data exists for all the countries except Albania. Construction data is only available for Croatia and Macedonia, while total exports data is available for all the countries. Gross wage data is missing for Albania. Regarding the financial indicators we use euro exchange rate data for all the WBCs. National bank leading interest rate data is only available for Albania, Croatia and Serbia, while data on the gross reserves of the National bank and data on money M1 is readily available for all WBCs. Finally monthly government expenditure data is available for all countries except for Bosnia and Herzegovina and Montenegro. It is general government data for Albania and the former Yugoslav Republic of Macedonia and central government data for Croatia and Serbia.

The maximum time periods available (for the unemployment rate) are longer for Croatia (starting from January 1995 up to April 2010) and shorter for most of the others. For Bosnia and Herzegovina exists a maximum period from February 2001 to April 2010, for Serbia we have data from February 2003 to March 2010 and for Montenegro only from February 2004 to March 2010. In the case of the two countries with quarterly data we have for Albania a longer period from first quarter 1998 to fourth quarter 2009 and for the former Yugoslav Republic of Macedonia a shorter period from second quarter 2004 to the first quarter 2010.

### ***The results***

Interestingly enough we find for each country, apart from the seasonal dummies, only one variable to have a significant coefficient (if at all). This variable we would like to call our 'short-run leading indicator for unemployment'. Unsurprisingly, in half of the cases this variable is the monthly percentage change of the industrial production index. In the other three countries, where industrial production is not so important we find quite surprising leading indicators. In the following we will discuss the results country by country. Certainly all the results have to be handled with care as they reflect past correlations and might not necessarily reflect future conditions.

#### ***Albania***

For Albania, where only quarterly unemployment data was available, we found the lagged change of the difference of the current to the average short-run interest rate to act as a short-run leading indicator for unemployment (see Table 3.1). However the coefficient is

Table 3.1

**Albania: quarterly unemployment rate change estimation**

	Coefficient	Standard Error	P-value
Lagged interest rate change	1.10	0.57	0.06
First quarter	0.28	0.92	0.77
Second quarter	-1.11	0.93	0.24
Third quarter	-0.59	0.90	0.52
Fourth quarter	0.25	0.88	0.78
Estimator: OLS	N = 38	R <sup>2</sup> = 0.186	

only significant at the 10% level. Surprisingly not a single seasonal dummy is significant. There might be several reasons for this result which is rather meagre and difficult to interpret. On the one hand the number of observations is rather low (N = 38). On the other hand unemployment in Albania is only measured in cities and not in the country side. This might make conclusions for the whole country rather difficult. Overall our model explains only about 19% of the variation in data (R<sup>2</sup> = 0.186). However, it might well be that the interest rate acts as a proxy for the important Albanian construction sector for which we do not have any data, as lower interest rates have led to increased borrowing for home construction in the past years. The interpretation of the coefficient is as follows. A one percentage point increase of the change of the difference between the current to the average national bank leading interest rate is correlated with an increase of the unemployment growth rate by 1.1 percentage points one quarter of a year later, *ceteris paribus*. Thus a fictitious increase of the Albanian interest rate from 5 to 6 per cent i.e. by 1 percentage point is expected to be correlated with an increase of the Albanian unemployment rate from 16 percentage points to about 16.2 percentage points, i.e. by some 1.1 percentage points of growth in the following quarter, given the seasonal differences in unemployment rates. Though of small impact, this might still be a useful indicator for unemployment in Albanian cities given that the Albanian national bank is expected to increase its interest rate in the wake of the economic recovery.

*Bosnia and Herzegovina*

In the case of Bosnia and Herzegovina we find all the three lags of the percentage change in gross wages to be negatively correlated with the percentage changes in the unemployment rate (see Table 3.2). All the coefficients are significant at the 5 per cent level. Half of the seasonal dummies are at least significant at the 10 per cent level. The fact that rising wages are correlated with falling unemployment hints at a Keynesian relationship where more aggregate demand also increases employment. In a fictitious case gross wages are rising by 10 percentage points in May. Thus it can be expected that in August the unemployment rate growth is decreasing by 1 percentage point (as the coefficient for the third lag is -0.1), for instance from a rate of 40 percentage points down to



39.6. However, it should not be forgotten that according to the seasonal dummy for August, in this month unemployment rates can be expected to increase by 0.32 per cent.

Table 3.2

**Bosnia and Herzegovina: monthly unemployment rate change estimation**

	Coefficient	Standard Error	P-value
Gross wage change, lag 1	-0.11	0.04	0.01
Gross wage change, lag 2	-0.12	0.04	0.00
Gross wage change, lag 3	-0.10	0.04	0.02
January	0.64	0.17	0.00
February	0.66	0.17	0.00
March	0.30	0.17	0.08
April	-0.07	0.16	0.67
May	0.12	0.16	0.45
June	0.27	0.16	0.11
July	0.29	0.16	0.07
August	0.32	0.16	0.05
September	0.02	0.16	0.90
October	0.17	0.16	0.28
November	0.26	0.15	0.09
December	0.19	0.16	0.23
Estimator: OLS	N = 96	R <sup>2</sup> = 0.310	

*Croatia*

For the Croatian unemployment estimate we have the largest number of observations and also the obtained model has a very good fit of 66%. All the three lags of the industrial production change are negative and significant at least at the 10 per cent level (see Table 3.3). The vast majority of the seasonal dummies are even significant at the 1 per cent level. Unsurprisingly one of the peak months of the tourist season, June, shows the largest reduction in the unemployment growth rate of 2 percentage points. In a case study to forecast December percentage point change in the unemployment growth rate we find the respective seasonal dummy to indicate an increase of the unemployment rate of 2.34 percentage points. Assuming that in September industrial production increases by 10 percentage points we can expect a reduction of the unemployment growth rate by 0.7 percentage points (multiplying the coefficient of lag 3 by 10), *ceteris paribus*. This is making the December unemployment rate to rise somewhat less.

Table 3.3

**Croatia: monthly unemployment rate change estimation**

	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>
Industrial production change, lag 1	-0.05	0.03	0.09
Industrial production change, lag 2	-0.08	0.03	0.01
Industrial production change, lag 3	-0.07	0.03	0.02
January	2.56	0.38	0.00
February	-0.66	0.53	0.22
March	-0.97	0.49	0.05
April	-1.67	0.50	0.00
May	-1.83	0.53	0.00
June	-2.01	0.46	0.00
July	-0.20	0.37	0.59
August	-0.07	0.37	0.85
September	2.07	0.40	0.00
October	1.90	0.40	0.00
November	1.46	0.43	0.00
December	2.34	0.44	0.00
Estimator: OLS	N = 181	R <sup>2</sup> = 0.663	

*The former Yugoslav Republic of Macedonia*

In the case of the former Yugoslav Republic of Macedonia we have the least number of observations at disposal and the data is in quarters. Hence we find hardly any significant results. Nevertheless, the lagged change in government expenditures remains as the most significant variable with a negative coefficient only significant at the 20 per cent level. This comes as a surprise as the former Yugoslav Republic of Macedonia does not show the highest government expenditures as a share of GDP in the region. Treating forecasts from this estimation with special care we can say that a reduction of 10 percentage points (quarter to quarter) in government expenditures growth in the former Yugoslav Republic of Macedonia increases the unemployment rate growth of the following quarter by a mere 0.6 percentage points – e.g. from an unemployment rate of 34 percentage points to 34.2 (see Table 3.4).

Table 3.4

**The former Yugoslav Republic of Macedonia: quarterly unemployment rate change estimation**

	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>
Lagged government expenditure change	-0.06	0.04	0.16
First quarter	2.06	1.40	0.16
Second quarter	-3.46	1.19	0.01
Third quarter	-0.01	0.85	0.99
Fourth quarter	0.85	0.79	0.30
Estimator: OLS	N = 23	R <sup>2</sup> = 0.383	

## Montenegro

Montenegro is also a case where the third lag of the industrial production change remains the most significant among all the variables used, though only at the 20 per cent significance level (see Table 3.5). The good fit of the model mostly stems from the highly significant seasonal dummies at the beginning of the tourist season, when unemployment growth rates drop quite strongly (e.g. by 5 percentage points in June). A 10 percentage points increase in industrial production growth is expected to decrease the unemployment growth rate three months later by only 0.3 percentage points. The reason for this small magnitude is that together with Albania, Montenegro is one of the least industrialized economies in Central, East and Southeast Europe.

Table 3.5

### Montenegro: monthly unemployment rate change estimation

	Coefficient	Standard Error	P-value
Industrial production change, lag 1	0.01	0.02	0.72
Industrial production change, lag 2	-0.01	0.02	0.69
Industrial production change, lag 3	-0.03	0.02	0.16
January	-0.04	0.80	0.96
February	1.05	0.80	0.20
March	-0.01	0.78	0.99
April	-2.56	0.88	0.01
May	-3.20	0.77	0.00
June	-5.06	0.78	0.00
July	-3.95	0.77	0.00
August	-0.42	0.76	0.58
September	0.54	0.79	0.49
October	0.99	0.84	0.24
November	-0.11	0.84	0.89
December	0.94	0.83	0.26
Estimator: OLS	N = 71	R <sup>2</sup> = 0.666	

## Serbia

Finally Serbia is another country where change in industrial production remains the most significant variable (see Table 3.6). The coefficient of the third lag is -0.28 and only significant at the 15 per cent level. Also most of the seasonal dummies prove to be not highly significant which reduces the fit of the model to only 16 per cent. Applying as a case study again a 10 percentage points increase in industrial production growth (month to month) makes us expect a reduction of the unemployment rate growth by 2.8 percentage points three month later, *ceteris paribus*.

Table 3.6

**Serbia: monthly unemployment rate change estimation**

	Coefficient	Standard Error	P-value
Industrial production change, lag 1	-0.06	0.19	0.74
Industrial production change, lag 2	-0.13	0.20	0.52
Industrial production change, lag 3	-0.28	0.19	0.14
January	3.09	2.52	0.22
February	-1.31	4.73	0.78
March	-2.01	4.58	0.66
April	-4.94	5.09	0.34
May	2.54	3.63	0.49
June	2.79	3.15	0.38
July	5.31	2.38	0.03
August	0.56	2.25	0.81
September	-0.21	2.20	0.92
October	-1.30	2.53	0.61
November	1.46	3.19	0.65
December	3.48	3.15	0.27
Estimator: OLS	N = 83	R <sup>2</sup> = 0.161	

**Conclusion**

Due to the partly limited availability of data and rather short time series in the WBCs in most of the cases only one of the explanatory variables from the sphere of real economy, financial crisis and government budget remains significant in the estimations of the change in the unemployment rate, if at all. In three cases this is the change in the industrial production. In the other three cases we find it less easy to interpret short run leading indicators for unemployment such as the interest rate change, the change in gross wages or the change in government expenditures. However, together with the results for the seasonal dummies the forward looking application of the leading indicators might still be a useful tool for the local agencies that will give policy makers more handling time to plan and apply ALMPs.

In a next step we would like to re-check the results with an eye on potential problems such as collinearities and cointegration of the variables. One possibility would be to estimate vector autoregression models (VARs).

## Chapter 4 Identification of key critical factors

### Introduction

The current crisis can be expected to have a lasting influence on the labour markets in the Western Balkans. This is because it challenges the existing model of growth and development and the inherited approach to labour market institutions and policies. In this section, some of the expected effects of the crisis on the labour markets will be analyzed, the emerging critical issues will be looked at and institutional and policy capacities will be discussed.<sup>135</sup>

### Crisis and employment

In the previous section of this report we discussed the characteristics of the labour markets in the Western Balkans and looked at the labour market policies and institutions. We also attempted to identify the factors that influenced changes in the unemployment rates in these countries. The most important overall determinant of activation, employment, and unemployment is certainly the growth rate of the economy. In that, the enduring impact comes from the long term or potential growth rate rather than from the short-term variations in it. This is especially true for countries in transition for the following reason.

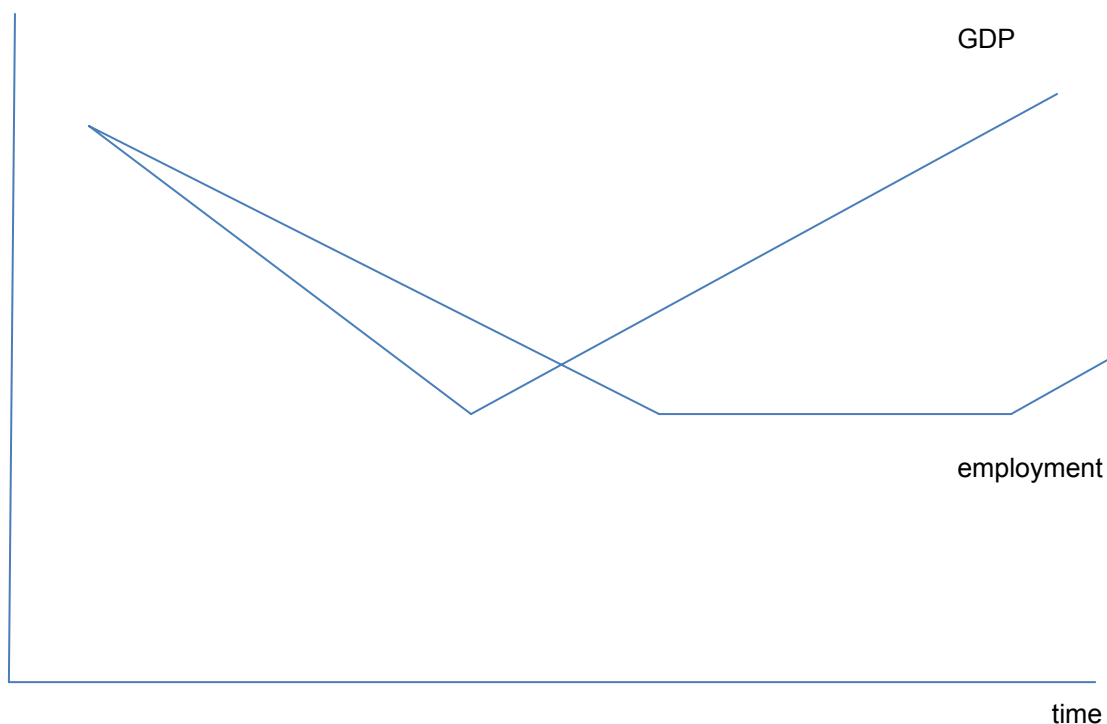
The process of transition in countries closely connected with the European Union, which includes the entire Western Balkan countries, is characterized by growth that is driven by productivity rather than additional employment. This is for two reasons: for one, because of the switch from public to private employment and for another because of the reliance on foreign investments. Both tend to stress growth of productivity over expansion of new employment. As a consequence, the particular characteristics of transitional labour markets develop. In the beginning of transition there is a transitional recession with strong drop in gross domestic product (GDP) and delayed decline in employment. Once growth recovers, employment tends to stay depressed for a significant amount of time thus providing for lasting gains in productivity. Only if growth persists, employment starts to increase. In Western Balkans this stylized picture is somewhat marred by the fact that transition was delayed in a number of countries and also due to significant role that outward migration and informal economy played in all the phases of the process of transition. Still, the main regularity of productivity driven growth with delayed increases of employment can be detected. Figure 4.1 is a representation of this stylized connection between growth and employment, sometimes called Okun's Law (i.e. the stability of the employment elasticity of employment), during transition from mainly state or public employment to predominantly private employment.

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<sup>135</sup> The main issues are discussed. More detailed analyses should be included in the Final Report.

Figure 4.1

### Okun's Law in Transition



It is not uncommon for employment to lag growth, but a prolonged jobless growth is usually characteristic of structural changes and adjustments, which is what transition mostly is. The usual Okun's Law of stable elasticity of employment on changes in growth rates does not apply in an unqualified manner in countries that are experiencing structural breaks. It is also hard to estimate this elasticity in these circumstances. However, the experience with transitional growth and employment dynamics indicates that eventual new structural changes may have similar negative consequences for the labour markets in the Western Balkans.

For this reason, the key issue is what are the growth prospects of Western Balkans? If those are estimated on the experience of last ten or so years of transition, i.e. since 2000, potential growth rates are relatively high, certainly in comparison with those recorded in longer periods of time. Though different ways of estimating potential growth rates give different results, there is no doubt that those are several percentage points above the average growth rates for the last hundred years or for any longer period of time. However, the unemployment rates recorded during these high growth years are exceptionally high. In some cases those have started to decline in the last couple of years, but that process has been interrupted now.

The following series of tables and graphs illustrates the growth determinants in the pre-crisis period and also give some estimates of potential growth rates according to different methodologies. Thus, Table 4.1 indicates that investments and foreign direct investments in particular, together with tertiary school enrolment have positive effects on growth, while external debts and government expenditures and population growth impact negatively economic growth. Clearly, drop in investments, which is characteristic of the crisis, is going to have significant consequences for growth.

Table 4.1

#### Growth regression

	Coefficient	Std. Err.	t	P-value
Initial GDP	-0.011	0.003	-3.35	0.001
Investment	0.117	0.036	3.26	0.002
Tertiary enrolment	0.038	0.015	2.57	0.013
FDI	0.312	0.062	5.00	0.000
External debt	-0.024	0.006	-4.18	0.000
Government expense	-0.070	0.026	-2.66	0.010
Population growth	-0.793	0.215	-3.69	0.001
Inequality	-0.045	0.024	-1.89	0.064
Constant	13.135	2.267	5.79	0.000
Number of observations	65			
R-squared	0.79			
Adjusted R-squared	0.76			

Source: wiiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Table 4.2

#### Growth prediction

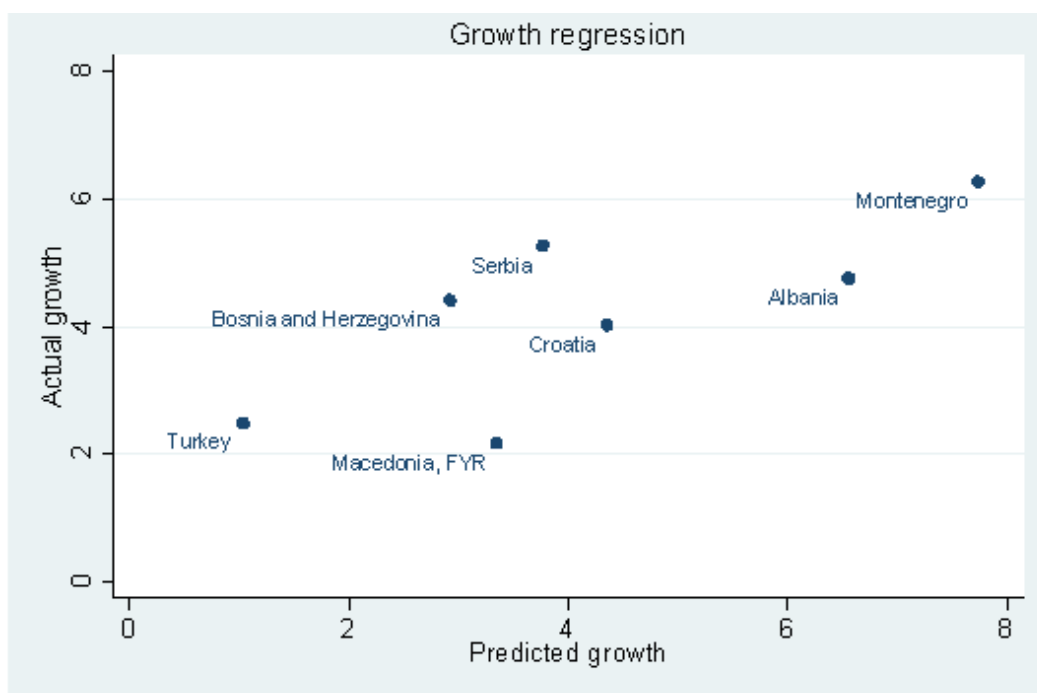
Country	Actual growth	Predicted growth	Difference between actual and predicted	High growth period prediction	Low growth period prediction	Prediction range
Albania	4.741	6.572	1.832	6.606	6.521	0.085
Bosnia & Herzegovina	4.396	2.931	-1.465	3.034	2.828	0.206
Croatia	4.012	4.365	0.353	4.59	3.467	1.122
the former Yugoslav Republic of Macedonia, FYR	2.153	3.349	1.195	3.38	3.237	0.143
Montenegro	6.264	7.749	1.485	11.209	7.057	4.152
Serbia	5.258	3.778	-1.48	4.436	3.285	1.152
Turkey	2.476	1.038	-1.438	1.133	0.817	0.315

Source: wiiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Table 4.2 gives predictions of growth rates based on the growth regression displayed in Table 4.1. Figure 4.2 plots predicted and actual growth rates for easier comparison.

Figure 4.2

**Actual and predicted average growth, 1997-2007**



Source: wiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Table 4.3 is an outcome of a growth accounting exercise. Table 4.4 then gives predictions of potential growth rates and of contributions by production factors and from total factor productivity. Again, Figure 4.3 makes it easy to compare actual with potential growth performance.

Table 4.3

**Growth accounting**

t	Coefficient	Std. Err.	t	P-value
Investment growth	0.215	0.024	8.99	0.000
Population growth	0.015	0.179	0.09	0.932
Constant	3.124	0.375	8.32	0.000
Number of observations	147			
R-squared	0.361			
Adj R-squared	0.352			

Source: wiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Finally, Table 4.5 summarizes estimates of potential growth rates by these two methodologies plus by subjecting actual growth rates to a Hodrick-Prescott (HP) filter. Though estimates of potential growth rates differ across different methodologies, they are predict reasonably high potential growth rates. These growth rates should prove high



enough to eventually lead to significant increases in employment and declines in unemployment.

Table 4.4

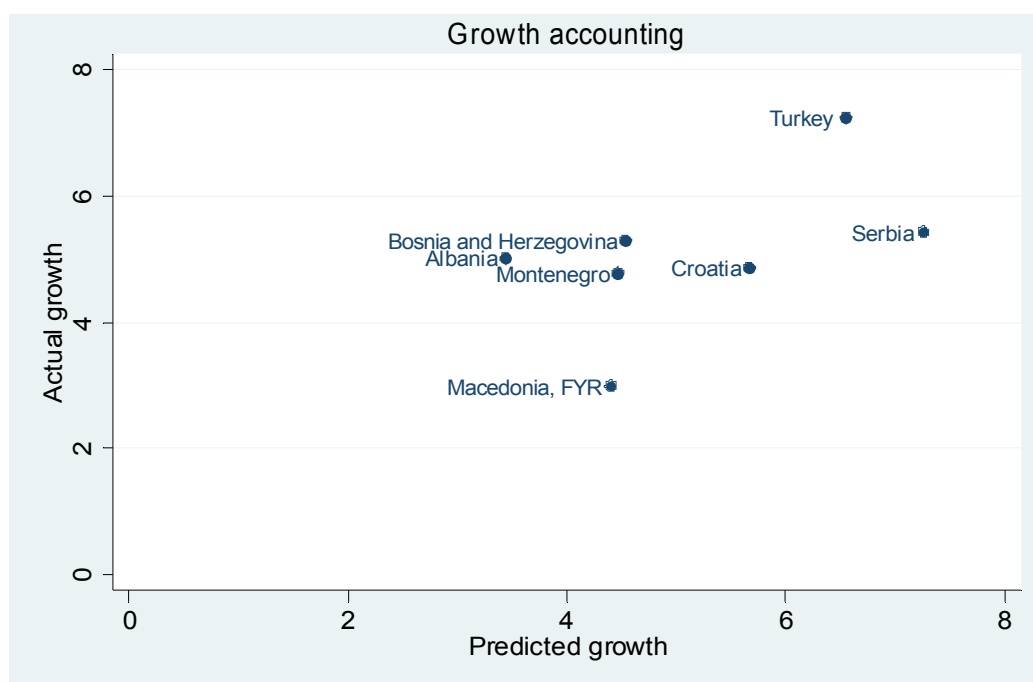
### Growth predictions and growth components

Country	Actual growth	Predicted growth	Difference between actual and predicted	Contribution of Capital	Contribution of labour	Contribution of TFP
Albania	5.000	3.448	-1.552	0.316	0.008	4.675
Bosnia & Herzegovina	5.280	4.541	-0.739	1.411	0.006	3.863
Croatia	4.847	5.676	0.829	2.552	0.000	2.295
the former Yugoslav Republic of Macedonia, FYR	2.977	4.409	1.432	1.282	0.003	1.692
Montenegro	4.767	4.471	-0.296	1.378	-0.030	3.419
Serbia	5.420	7.265	1.845	4.144	-0.003	1.278
Turkey	7.229	6.557	-0.673	3.414	0.019	3.796

Source: wiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Figure 4.3

### Actual and predicted average growth, 2002-2007



Source: wiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

Table 4.5

**Alternative estimates of potential growth**

Country	HP filter, smoothed	Growth regression	Growth accounting
Albania	6.4	6.6	3.4
Bosnia & Herzegovina	5.2	2.9	4.5
Croatia	3.9	4.4	5.7
the former Yugoslav Republic of Macedonia, FYR	2.2	3.3	4.4
Montenegro	3.6	7.7	4.5
Serbia	5.3	3.8	7.3
Turkey	2.1	1.0	6.6

Source: wiiw and CEPS, Final report on Financial risks in candidate and potential candidate countries.

In fact, relatively high growth rates and the existence of the expectation of these rates continuing in the future may have been the reason why labour market policies have been mostly passive and unemployment benefits have been relatively meagre. Indeed, in the period immediately preceding the current crisis, in a number of countries the unemployment rates started to drop and employment started to increase. If these trends were extrapolated, clearly persistent fast growth would be seen as leading to significant increases in employment. On the basis of the findings in the first three sections of this report and other research it could be argued that employment policies in most Western Balkan countries can be characterized in the following way:

1. Reforms of labour laws in order to increase the flexibility of the labour markets. In the previous study (wiiw 2008) it was found that on EPL indices, Western Balkan countries achieved relatively high degree of flexibility compared to other countries in transition and also to the EU.
2. Preference for retirement and even early retirement to either retraining or other instruments of active labour market policies. In a number of Western Balkan countries, dependency ratio is very high with particularly high number of retired people.
3. Preference for passive labour market policies and for poverty reduction programmes. The latter usually included some considerations for the vulnerable groups as those tended to be more impoverished than the average.

These policies have proved less than effective in addressing the structural problems in the labour markets. Table 4.6 displays the EPL indices for all the countries together with employment and unemployment rates for men and women. Clearly, relatively favourable flexibility of the labour markets was not correlated with high employment rates and low unemployment rates. As argued above, it does not seem that transitional and structural problems in the labour markets can be properly addressed by increased flexibility.

Table 4.6

**EPL index, employment, unemployment in the SEE and peer countries**

Country	EPL index				males		females	
	Total	reg.	temp.	coll.	(1)	(2)	(1)	(2)
Albania	2.6	2.1	3.0	2.8	61.4	12.9	38.3	18.2
Bosnia and Herzegovina	2.6	1.8	3.1	3.3	42.3	28.9	20.8	34.9
Croatia	2.7	2.7	2.8	2.5	60.7	12.8	46.3	15.6
the former Yugoslav Republic of Macedonia	2.8	2.0	3.1	4.0	45.6	37.0	31.3	36.3
Serbia and Montenegro	2.9	2.2	3.1	3.8	54.6	15.1	40.6	17.2
Bulgaria	2.0	2.2	3.4	2.6	56.0	14.1	49.0	13.2
Romania	2.8	1.7	3.0	4.8	63.8	7.5	51.5	6.4
Slovenia	2.7	2.7	2.3	4.8	67.4	6.3	57.6	7.1

*Note:* Employment index refers to last year of change; unemployment rates refer to 2003. - (1) Employment rate. - 2) Unemployment rate, in per cent, respectively.

*Sources:* wiiw and national statistics.

Current crisis has interfered with these developments and could eventually trigger some changes in the labour market policies. Initial reaction of the labour market has been similar to that seen in the transitional recession. In a number of countries, the decline in employment has initially been smaller than the drop in GDP. However, in some cases, e.g. Serbia, employment reaction has been strong. In the case of Croatia it seems to have been prolonged. In other countries the labour market reaction has been more muted.

It is, however, not clear whether return to growth can be expected and even if it were to happen what effects on the labour market could be expected? The experience of transition is that structural problems in the labour market are rather difficult to address even in the periods of fast growth. So, one question is whether current crisis is prompting structural adjustments in the labour markets and if it is what are the critical factors in the activation policies and what instruments and institutions may prove to be suitable to this new growth and employment situation?

The reason that current crisis may prove to lead to structural adjustments is that pre crisis growth was based on foreign investments and mostly on the expansion of the services sector. It is generally recognized in the Western Balkans that the return to growth will mean an expansion of the tradable sector, i.e. of industry and exportable services. If that is the case, another transition in the sense of structural adjustment will be needed. On top of that, the previous transition has by all accounts not been finished; which means that the restructuring of the employment from the public into the private sector will not only continue but will accelerate. Finally, the large informal sector that goes with the relative dominance of services will have to shrink because the demand for services in general will decline.

Thus, the current crisis will require three main structural adjustments of employment: from services to industry, from the public into the private sector, and from informal to formal sectors. In that, a host of other problems in the labour markets will have to be addressed.

### **Policies and institutions**

It can be safely assumed that the return to positive growth will be accompanied by structural changes in the labour markets. The problems will be confounded if the period of low or stagnant growth persists. In both cases, however, labour market adjustment will have to be supported by various policy measures.

During the crisis, most countries resorted to passive measures to address rising unemployment or to prevent it. Some governments (e.g. Serbia) designed schemes to subsidize those who are already employed or those who are newly employed. In addition to that, government investment programmes have been put in place in a number of countries, though these are slow in realization and depend on the availability of public resources which is not to be taken for granted.

With that in mind, the design of labour market policies and institutions will have to address structural as well as transitory loss or lack of employment. The former are best addressed with active labour market policies while the latter are mostly what passive labour market policies are concerned with. The expected economic restructuring affects transitions from one job to another in a different way.

1. *From public to private jobs.* This transition is mostly driven by the demand for employment. The skill structure and often the age structure of public sector employees are such that the probability that they will find a job in the private sector is higher than it is on average. The main disincentive to moving from public to private employment is the loss of job security. However, with the need to cut public sector jobs, that factor will play less of a role. Also, most public sector jobs come with better severance conditions than it is the case on average. Therefore, the main constraint is the speed of recovery of the private sector and thus of the demand for labour.
2. *From services to industry.* Prospects for growth and for employment in the Western Balkans should be more in industry than in services. This restructuring of the labour market is probably the main example where active labour market policies play the most important role. There is mismatch in skills and often in other characteristics of the labour force. One concern of investors is that they cannot find the employees with the appropriate skills. This is where the retraining programmes play the crucial role. In the past, the educational system has proved capable of reacting to some demands for new skills, e.g. with private business schools springing all over the place, but it is not altogether clear that other types of vocational training will be as easy to set up without

some public support. In any case, this is certainly the major part of the activation policy that should be developed.

3. *From informal to formal.* The informal sector is complex and multifaceted. The choice between a formal and an informal job is not only determined by the shortage of formal sector jobs or by the shear difference in skills demanded and in wages offered. There is of course a significant element of tax evasion involved, but that is not an employment policy issue. In Western Balkans there is a move towards the lowering of the tax burden on labour, which is not easy to do in the crisis, for lack of substitute sources of public revenues, and that process will gain momentum as the economy recovers. However, the other causes of informal employment will still have to be addressed. Some improvement can be achieved with better labour market regulation. Part of it has to do with the advantages that the entrepreneurs have to see in going formal and part of it will have to do with the employees looking for better prospects for job and income security and for advancement. In that sense, a combination of passive and active labour market policies, similar to the concept of flex-security, could be developed.

In addressing these critical factors and in designing the activation and employment policies, the overall distribution of risks and rights across different characteristics of the labour force need to be considered. In some studies, it has been found that women face more risks and tend to be found in larger numbers in jobs with higher security, i.e. with more extensive employee rights. The opposite seems true for men. The optimal distribution of risks and rights may be different for other vulnerable groups, e.g. for minorities or for those with low level of skills and with invalidities. This is usually the reason that some types of positive discrimination programmes are designed. In other words, rights are increased in order to compensate for higher risks in the labour market.

It is not altogether easy to develop these programmes and policies. In order to calibrate the policy instruments properly, it is necessary to do randomized policy experiments and policy evaluations in order to determine what is the optimal combination of risks and rights and what types of positive discrimination programmes may work for which structural labour market problem. This is now increasingly being done in advanced as well as in the developing countries but has not been used almost at all in the Western Balkans.

This leads to the question of the critical factors within the public employment agencies. Our surveys of these issues suggest that significant improvements are in order. Given the prevalence of passive policy measures, the employment agencies need an upgrade in terms of tasks, instruments, skills, and resources. If the structural problems will be the key ones in the future, public employment agencies will have to run a host of new programmes designed to increase the chances for employment activation. In that, they will have to be

much better informed about the supply and demand issues in the labour markets. They will also have to be supported by improved legislation and with more resources.

## **Conclusion**

The key challenge that employment policy and employment services face in the Western Balkans is to manage structural adjustments in the labour markets that will come with the change in the structure in the product markets. That will require legislative action, policy redesign, and institutional upgrading.

Cyclical changes in employment have mostly been realized so there is little that can be done to limit the effects the crisis on the loss of jobs. With the improved prospects for growth, some increase of employment can be expected. There is some scope for the employment and other agencies to enable the search and matching process which should be taken advantage of. Some of this recovery of employment happens with labour finding new entrepreneurs and that involves search and information which could be mediated better by the employment agencies.

The key challenge is the structural reallocation of employment because that involves not just search and matching activities, but also many other aspects of activation policies only some of which are in the labour market as such. In a number of countries there is growing interest in the development of industrial policies, which would also include various types of active labour market policies in order to change the skill structure and support the emerging new structure of production. That, however, will mean that the labour market strategy will have to be changed and also employment and other services will have to be reformed and improved. Much of that will require long-term policy planning of the kind that now hardly exists.

## **Chapter 5 Identification of opportunities for regional cooperation**

### **Background on regional cooperation**

Transition in Southeast Europe has been marred by the process of disintegration of Yugoslavia and of regional disintegration in general. In the post-conflict period, since roughly 1995, the international efforts have been directed towards renewed regional cooperation for political but also economic reasons. Indeed, the underlying assumption has been that improved economic cooperation will support regional stability and also lead to improved political cooperation. With that in mind, significant efforts have been expended to put up forms and fora for regional cooperation. This activity was especially intensified after the Kosovo war in 1999 which prompted the set up of the Stability Pact for Southeast Europe in Sarajevo. Before and after that initiative, the contribution to the strengthening of regional cooperation was made one of the major conditions for cooperation with the EU and for the entrance into contractual relations with the EU. After the Thessalonica summit of EU with the Western Balkans, regional cooperation has become one of the conditions for the advancement in the process of EU integration. In that context, first bilateral trade agreements were encouraged and later a set up of a multilateral free trade area was supported, which came out under the name of CEFTA. Finally, the process of transfer of responsibility from the international efforts like the Stability Pact to local, regional ownership was started and centred on the Regional Cooperation Council with headquarters in Sarajevo. Table 5.1 with most of these initiatives and developments listed illustrates the extent of these activities.

The results have been somewhat disappointing due to basically two factors. One is that regional cooperation is mostly a political issue and receives at most an indirect support from regional economic interests. The other is that it happens when it happens if it is part of an international effort rather than as a regional initiative; in other words, it has to be initiated and guided from the outside, i.e. given the process of EU integration, by the EU.

### **The context and opportunities for regional cooperation**

Western Balkan countries are successor states of Yugoslavia, with the exception of Albania. Though they have followed different paths of transition, there are institutional similarities and growing economic linkages. In the case of Albania and Kosovo there are similarities concerning the strong reliance on informal markets and even more on outward migration. The latter two countries differ from the rest of the Western Balkans in terms of demography: Albania and Kosovo have a very young population while the rest of the Western Balkans is demographically very old and ageing rapidly.

Table 5.1

### Regional cooperation on the Western Balkans

Regional Cooperation/Initiative	Members	Objectives	Established
Stability Pact	AL ,BiH, HR, ME, fYRoM , RS; BG, MD, RO	First comprehensive conflict prevention strategy of the international community aimed at strengthening the efforts of the SEE countries in fostering peace, democracy, respect for human rights and economic prosperity. As substantial progress was achieved over the years the initial approach driving the Pact at the beginning became obsolete, thus the need for a more regionally owned framework (-> RCC, 2008) became obvious.	June 1999
<ul style="list-style-type: none"> <li>RCC Gender Task Force</li> </ul>	AL, BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99; BG, GR, MD, RO , SI	Address gender issues within the Stability Pact. Measures to empower women politically, but also from a labour market perspective.	October-November 1999
<ul style="list-style-type: none"> <li>ERI SEE – Education Reform Initiative of South Eastern Europe</li> </ul>	AL BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99; BG, MD, RO and all members of the RCC Board.	Regional platform for cooperation in the field of education and training. It supports national reforms in education and training through regional capacity building, transfer of know-how and linking these efforts to European frameworks for education development. Promoting cooperation between the education and research sectors in South Eastern Europe (SEE) is a priority as well.	2004, initiated by the Task Force Education and Youth (TFEY) of the Stability Pact
<ul style="list-style-type: none"> <li>CPESSSEC – Centre of Public Employment Services of South East European countries</li> </ul>	Employment services of BiH, HR, fYRoM, RS and KS under UNSCR 1244/99, BG, RO, SI, TR	Promoting cooperation in the field of labour market and employment and strengthening the relations among the member countries.	May 2007
RCC – Regional Council for Cooperation	46 countries including all Western Balkan countries (AL, BiH, HR, ME, fYRoM, RS and KS under UNSCR 1244/99) European Union represented by EU Presidency, European Commission and EU Council secretariat as well as those donor countries, international organizations and International Financing	The RCC focuses on regional cooperation in South East Europe (SEE). The key role is to generate and coordinate developmental projects and create a political climate susceptible to implementing projects of a wider, regional character, to the benefit of each individual member.  The work of the RCC focuses on six priority areas: economic and social development, energy and infrastructure, justice and	February 2008



	Institutions engaged in support of regional cooperation	home affairs, security cooperation, building human capital, and parliamentary cooperation as an overarching theme.	
<ul style="list-style-type: none"> <li>TF FBHC – RCC Task Force Fostering and Building Human Capital</li> </ul>	AL, BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99; BG, GR, MD, RO, TR and all members of RCC Board.	Entrusted with the promotion of coherency between education, higher education and research cooperation in South Eastern Europe.	June 2008, launched by the RCC Board
<ul style="list-style-type: none"> <li>ESPN – The Employment and Social Policy Network</li> </ul>	AL BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99; BG, MD, RO	Main forum for promoting regional cooperation in the area of employment, labour market and social policies. Foreseen to foster exchange of information, knowledge and expertise, given the similar social profiles of the countries in the region. ESPN has <b>not been really active</b> since it was established.	June 2009, under the auspices of the Regional Cooperation Council.
SEE CEL – South East European Centre for Entrepreneurial Learning	AL, BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99;	Four pillars will be addressed: Development of the entrepreneurship key competence (ISCED 2 level); Promotion of entrepreneurship at the third level education (ISCED 5/6 level) within non-business disciplines; Enterprise-driven training needs analysis; Dissemination and promotion of good policy and good practice.	October 2008
<b>Programmes</b>			
SVILMA – Development of the Adriatic labour market; Adriatic Cross Border Cooperation Programme INTERREG IIIA	AL, BiH, HR, ME, RS and the Italian regions Veneto, Friuli Venezia Giulia, Emilia Romagna, Marche, Abruzzo, Molise and Puglia	The objective of the programme was to develop institutional, economic and social cooperation between the countries and regions included. The project was implemented for the purpose of association and exchange of experience between cross border labour markets.	April 2004 – December 2006
DILMA - Develop Integrate Labour Market of the Adriatic Area INTREG III A Adriatic programme, financed under CARDS 2004 Regional.	AL, BiH, HR, ME, RS and the Italian regions Veneto, Friuli Venezia Giulia, Emilia Romagna, Marche, Abruzzo, Molise and Puglia	Continuation of SVILMA	July 2007 – January 2009
Regional Programme on Social Security Reforms and Social Security Co-ordination	AL BiH, HR, ME, fYRoM , RS, KS under UNSCR 1244/99; TR	Joint programme between the European Commission and the Council of Europe, contributes to the regional coordination of the social security systems, while facilitating reforms in the field of social protection.	March 2008 – November 2010

Regional cooperation is institutionalized via the free trade agreement (CEFTA) and via the Regional Cooperation Council (RCC) based in Sarajevo. The intention is to spur trade in goods and services, to facilitate investment and to open up the labour markets. Though these aims are seen as important and fall into the competencies of CEFTA and RCC, the information gathered from the latter institution suggests that those are at a very early stage of development and implementation. The aim is to extend the four freedoms throughout the region, which means also free labour mobility across the borders within the Western Balkans. Already, there is significant mobility across the region, though mostly of seasonal labour force.

In any case, there are common institutional experiences, there are already regional institutions and initiatives for cooperation, and there are regional labour markets, with regional problems that call for regional cooperation and coordinated responses.

Regional labour market integration can be expected to increase due to complementarities in supply and demand. The region as a whole is also faced with significant outward migration, i.e. migration out of the region. In previous research (Gligorov et al., 2008; Gligorov, 2009), both voluntary and involuntary migrations have been found to be important and to have regional characteristics. Regional cooperation on both of these developments is needed. In terms of involuntary migration (refugees, internally displaced persons), cooperation exists on paper, but implementation is weak or very weak. When it comes to voluntary migration, there is little regional cooperation, though there are significant regional aspects to this phenomenon. Clearly, both policies and employment services should increase regional cooperation and coordination.

The above suggests that there is scope for various additional types of regional cooperation. However, the actual interest and participation in regional cooperation differs across countries. We have asked our country experts on the facts on and policies of regional cooperation and the answers follow.

### **Regional cooperation: country perspectives**

#### *Albania*

Although the Western Balkan countries and territories are relatively small and involved in reforms of the labour market institutions, the cooperation and exchange at the same time is scarce. These countries have increased exchange in other fields and are involved in trade liberalization and free movement of people, but barriers that impede their collaboration in the labour market still exist. The Strategy of Employment and the PES objectives in Albania have not foreseen any specific measures that aid the process of cooperation between the Western Balkan countries in the field of labour market institutions.

### *Bosnia and Herzegovina*

Bosnia and Herzegovina does not have a state level Ministry of Labour. Entity level Ministries of Labour have not been engaged in regional cooperation activities so far. The state level PES is an active member of the CPESSEC, but the range of activities undertaken by this regional centre was limited. In the case of Bosnia-Herzegovina, in particular, the problem is that the state level PES does not have authority over entity level PES, so even if some activities were to be undertaken, their implementation in Bosnia-Herzegovina would be quite difficult. Also, entity level PES lack capacities necessary for the implementation of possible regional programmes (see more below).

The RCC plans to start a regional level project focusing on women entrepreneurship in 2011. They are aware of problems of the labour markets in SEE, but they have a very limited budget that does not allow them to be more active in this field. Interviewees from other agencies did not mention any plans for regional cooperation.

One of the main areas where regional cooperation would contribute to a decline in unemployment (stressed by the RCC as well) is increased labour force mobility. This should reduce the skills mismatch caused by the inappropriate education system which also requires urgent reforms, but should also decrease human trafficking and abuse of temporary workers. For example, an exchange of information between state level PES in the region concerning employment opportunities in each country would be helpful. But, activities such as this one will depend on the capabilities of PES in each country to successfully implement them. For instance, entity level PES in Bosnia-Herzegovina do not collect this information yet. A memorandum that FBiH PES signed with the FBiH Association of Employers in June 2010, which includes an agreement on sending information on vacancies by employers to the PES, is a step towards improving the capacity of PES for regional cooperation as well.

The exchange of good practices could be very helpful to all countries. As we can see from the example of Bosnia and Herzegovina, active labour market policies are very poorly developed and implemented, so it is not surprising that their effects are limited.

### *Croatia*

Representatives of relevant institutions participate in third-party organized conferences or meetings and frequently share their experiences in the informal part of the meetings. This type of cooperation is, naturally, not institutionalized. These meetings/conferences are sometimes organized also by local institutions. The cooperation is not frequently focused on labour market issues, but more oriented towards business sector, financial market and investment promotion activities. One example for labour market related cooperation is the South East European Centre for Entrepreneurial Learning <http://www.seecel.hr/>, which

aims to increase the overall entrepreneurship level in the region and thereby to indirectly influence the labour market, but also to improve the business climate.

Based on information from the Croatian employment service, CES is one of the 16 members of the WAPES (World Association of Public Employment Services) Managing Board. In this role CES actively participated in the preparation of the work strategy and the implementation of the WAPES Annual Action Plan.

Through regular cooperation with the WAPES Secretariat and Management, the CES organized the 8th WAPES World Congress on the topic of Public Employment Services – Efficient Labour Market Participants along with a number of accompanying events (Managing Board meetings, General Assembly session) in Dubrovnik from 26 to 30 May 2009. 54 countries, members of the WAPES, representatives from all continents participated in the congress. The topic of the congress was adjusted to the recent developments in the labour market, i.e. Crisis Response of World Employment Services – Operational Initiatives towards Sustainable Recovery. The purpose of the congress was to analyse how employment services from around the world act as key participants in the field of labour market policies and how they cooperate with other participants in the light of the global fiscal and economic crisis.

Under the Stability Pact and the regional cooperation process, the CES participated actively, as one of the members of the Centre of Public Employment Services of Southeast European Countries (CPESSEC), in the activities of the said centre in accordance with the Operating Guidelines for the CPESSEC on the basis of which Croatia, Bosnia and Herzegovina, Bulgaria, the former Yugoslav Republic of Macedonia, Montenegro, Romania, Serbia, Slovenia and Turkey operate jointly in the regional labour market.

The DILMA (Develop Integrate Labour Market of the Adriatic Area) project was developed within the INTREGG III A Adriatic programme which was financed under CARDS 2004 Regional. This project is the continuation of the SVILMA project (Development of the Adriatic Labour Market). Project implementation started on 31 July 2007 and lasted until 31 January 2009.

The total value of the project was EUR 1,250,000, while the Croatian Employment Service received the amount of EUR 48,066. The project was initiated by the Italian Veneto Region with the Croatian Employment Service as the Croatian proponent. The project partnership consisted of Croatia, Italian Adriatic regions – namely Veneto, Friuli Venezia Giulia, Emilia Romagna, Marche, Abruzzo, Molise, Puglia – and Bosnia and Herzegovina, Serbia, Montenegro and Albania. The purpose of the project was to promote the international cooperation of state, public and private labour market stakeholders, enhance the knowledge and skills of those employed in public and private employment services and

improve institutional cooperation in balancing supply and demand in the labour market through further development of partnerships in the Adriatic region.

The main project activities were divided into 5 work packages:

**WP1: Project management**

**WP2: Technical assistance**

**WP3: Resources centre for partnership**

**WP4: Mobility of workers**

**WP5: Project promotion and dissemination of outputs**

Within WP1, the main activities consisted in constant communication with the main project partner, reporting and administration as well as coordination of project activities. The key result of this WP is newly built capacity for the implementation of international projects within the CES. Technical Assistance within WP2 gave its contribution in the elaboration of project ideas developed by the Project Implementation Department. Technical assistance also organized EURES network trainings for counsellors in the regional offices on the coast. Training on Project Cycle Management was held in Zadar for the regional offices employees. As a result of this activity, 3 concept notes were developed that will be the basis for the development of the future cross-border projects in the CES regional offices:

1. The concept note of the regional offices Pula and Rijeka is called 'ALTER NONA'. The overall objective of this project is to increase employability of women over 45 years of age in Primorje-Gorski Kotar County and Istra County, by acquiring knowledge and skills needed to become a babysitter.
2. The concept note of the regional offices Gospić, Zadar, Šibenik is called 'MODERN WAITER' and the objective is to enhance the level of knowledge and skills of unemployed waiters aged 25-49 in Zadar County, Šibenik-Knin County and Lika-Senj County.
3. The concept note of the regional offices Split, Dubrovnik and Herceg Novi from Montenegro is known as 'Raising the quality of autochthonous tourist offer in the South Adriatic', and the main objective is to enhance the quality of tourist services through training of small and medium-sized entrepreneurs and labour force in the sector.

Within WP2B, the main activity was the creation of an expert database (analysts, demographers and experts for EU projects), based on the ROSTER database used in Italy, which was applied within the CES ICT system after a testing phase. Within this WP the computer equipment for regional offices on the coast was purchased – 6 computers, 6 digital projectors and 1 info kiosk as well as a notebook for the Project Implementation Department in the CES Central Office.

Within WP 3C two study visits for the CES employees were organized. During the first study visit, CES labour market experts gained an insight into the ROSTER database of Veneto Lavoro Agency. ROSTER is a database of labour market and migration experts and was used by the Croatian experts in creating their own ROSTER database. The second study visit was organized for the CES Project Implementation Department members in order to familiarize themselves with the ESF project preparation and implementation and cross-border projects in the region of Veneto and Friuli Venezia Giulia. There was also a discussion on the possible continuation of cooperation in the future cross-border project. In WP 4B the report on the employment of persons abroad was prepared, provided by the statistics department, and forwarded to Veneto Lavoro in order to create a common mobility labour force database. The final conference was planned under WP 5, and was held in Opatija on 20 January 2009. It was attended by representatives of Veneto Lavoro Agency, participants from Montenegro and Bosnia and Herzegovina, heads of the CES regional offices, CES regional office employees who had participated in the project trainings, project team management and the experts from the CES Central Office that took part in the implementation of project activities. Besides the presentation of the activities and the results of the project, there was a discussion on future cooperation between the partners and future projects under cross-border cooperation programmes.

The project SVILMA is implemented in the framework of the Adriatic Cross Border Cooperation Programme INTERREG IIIA (Interreg Adriatic Cross Border); in addition to Croatia, Bosnia and Herzegovina, Serbia and Montenegro, Albania and the Italian regions Veneto, Friuli Venezia Giulia, Emilia Romagna, Marche, Abruzzo, Molise and Puglia are taking part in the project. The objective of the programme is to develop institutional, economic and social cooperation between the said countries and regions. As part of the INTERREG IIIA the SVILMA project is implemented for the purpose of association and exchange of experience between cross border labour markets. The principal region in the project is the Italian region of Veneto, with the Croatian Employment Service participating in the project implementation on behalf of Croatia. The implementation of SVILMA commenced in April of 2004 and ended in December 2006. The value of the project was EUR 1,317,500. In May 2006, the CES organized a one-day seminar within the SVILMA project, entitled The Croatian Labour Market and its Adriatic Component.

Through IPA financing for the period 2007-2009, funds were allocated for the cross-border cooperation projects. However, within this framework, the specific project cooperation has been realized only with Hungary. The projects within the cooperation are mostly concentrated on increasing the skills of the workforce. Similar projects could be organized within the broader region, including more Western Balkan countries. However, this would imply specific knowledge on the future skills needs in order to reap the most benefits of this

type of projects. In most of the countries of the Western Balkans there are no regular assessments of the skill requirements on the labour market.

Another example is the establishment of a migration information centre in Croatia. Similar centres could be organized in other countries of the region and the cooperation between those institutions would be beneficial to the potential users, but could also alleviate the need to search for relevant information within each institution.

When it comes to the coordination of legislative activities, since all the countries have expressed their desire to join the EU, most of the legislation changes are directed towards ensuring the implementation of EU directives. In a few instances, the Croatian government has already forwarded the translation of the relevant documents to other countries where the local language is similar. However, the speed of the adoption of legislation always depends on the political procedures in each country as well as on the current position of local stakeholders (of which the strength of local unions is presumably the most important one).

In terms of labour market policies, future cooperation could be improved by organizing specific conferences and workshops where the 'examples of good practice' would be shared. Representatives from PES, relevant ministries and other stakeholders from each country should participate in such a workshop.

#### *Kosovo under UNSCR 1244/99*

Kosovo is part of regional conferences in the field of labour markets. The International Labour Office in Budapest covers Kosovo in issues related to cooperation with this organization and other international bodies in the field of labour market and related policies.

The Ministry of Labour and Social Welfare (MLSW) of Kosovo has recently worked on signing a number of memoranda of cooperation with several UE countries to enable young people to temporarily work in these countries (however, with no concrete results so far).

The MLSW has prepared its employment strategy with the support of many international actors that are active in Kosovo. It foresees to intensify international cooperation to facilitate greater labour mobility. But again, there are no specific actions undertaken so far.

There is much room for improvement of labour mobility, initially within the region. Anecdotal evidence suggests that around 50,000 employees working in Montenegro come from neighbouring countries. There is no formal cooperation in the field of the labour market between Montenegro and its neighbours, but the easy access and the friendly environment created by the government has attracted many businesses and has therefore

created employment there. This certainly is a good example to be followed by other countries and to be facilitated by legislative acts and formal cooperation between the public employment services to better target those that are most in need of employment as well as those well-trained for the jobs required in the market.

#### *The former Yugoslav Republic of Macedonia*

The former Yugoslav Republic of Macedonia has been part of the following regional initiatives:

1. The *Employment and Social Policy Network (ESPN)* – established in June 2009, under the auspices of the Regional Cooperation Council. ESPN has the aim to promote regional cooperation in the area of employment, labour market and social policies. The former Yugoslav Republic of Macedonia is a member of ESPN. The ESPN is foreseen as a main forum (including online discussion) to foster the exchange of information, knowledge and expertise, given the similar social profiles of the countries in the region. However, ESPN has not been really active since its establishment.
2. The *Centre of Public Employment Services of South East European countries (CPESSEC)* – a regional non-profit organization of public institutions or government departments responsible for the implementation of labour market policies. It was established in 2006. The Employment Service Agency (ESA) of the former Yugoslav Republic of Macedonia is a member of CPESSEC. The CPESSEC acts as a forum for the exchange of information and experiences in service provision to employers and job seekers as well as contributing to capacity building of public employment services in the region. Meetings take place both at the managerial and expert level.
3. Projects already realized in the former Yugoslav Republic of Macedonia in the area of labour markets that could serve as basis for the exchange of experiences include the EU CARDS project ‘Technical Assistance to support employment policy’ (2007-2009) and ‘Project of self employment by accreditation’ (2008). ESA has been a beneficiary of both projects.
4. The *Regional Programme on Social Security Reforms and Social Security Coordination* – a joint programme between the European Commission and the Council of Europe – has contributed to the regional coordination of the social security systems. The Macedonian government (more specifically the ministry of labour and social policy of the former Yugoslav Republic of Macedonia) has been actively participating in this programme, while activities mainly consist of reforms in the social security area. Cooperation is mostly on the exchange of experiences on the policy level, while specific activities (projects) have mostly taken place on a country level.
5. The Adriatic Region Employer Centre (AREC) was founded in 2008, as a regional centre of the employers from South Eastern Europe. It was established under the auspices of the International Organization of Employers (IOE). AREC has the aim to



promote projects, cooperation and the exchange of experiences and knowledge between partners in the region, to help create an environment suitable for business and for local and foreign investment, as well as to represent regional business societies in the relations with international partners such as the European Commission, the International Labour Organization and the World Bank.

6. RCC Task Force Fostering and Building Human Capital (TF FBHC).
7. RCC Gender Task Force (GTF).

The initiatives for further regional cooperation in the area of labour markets indicated in the RCC programme for work include:

- a. reviving the activities of the Employment and Social Policy Network with the purpose to ensure it meets on a regular basis, supports the establishment of a permanent secretariat, and facilitates the development of possible regional projects;
- b. contribute to the establishment of a regional consultative assembly composed of social partners and civil society;
- c. organize regional awareness-building events to support the implementation of the EU acquis in the area of social cohesion.

Regional cooperation in the field of labour markets could be strengthened in the following areas:

- a. further harmonization of the national legislation with the EU acquis (participants: policy-makers and PES);
- b. design and implementation of successful ALMPs (best practices, lessons learnt and possibility for transfer of the concept and expertise) (participants: policy-makers and PES);
- c. capacity building for data gathering for statistical purposes, skill needs analysis and assessment of the ALMPs (participants: PES);
- d. developing a common policy approach in the area of labour markets, in line with EU practices (participants: policy-makers);
- e. strengthening the connection between business and education systems to provide for a better alignment between the skills supplied by the education and training systems and the needs of employers (participants: policy-makers, PES and employers).

### *Montenegro*

The government ministry is involved in the project Mediterranean Office for Youth – Pilot project Mobility of Youth (Albania, Algeria, Bosnia and Herzegovina, Cyprus, Croatia, Egypt, Spain, France, Greece, Malta, Morocco, Montenegro, Italia, Lebanon, Slovenia, Tunisia and Turkey).

The employment Agency of Montenegro has signed agreements for cooperation with the Employment Agency of Serbia, the Employment Agency of Bosnia and Herzegovina (B&H) and the German Employment Agency. The agreements with Serbia and B&H relate mainly to cooperation in the area of social insurance systems, since many workers from Serbia and B&H are engaged in Montenegro (mainly in seasonal jobs, and especially in construction, agriculture, hotels and catering activities). The cooperation with the German Employment Agency relates to cooperation in ALMP's, professional rehabilitation, etc.

Montenegro participates in all regional fora; however there are no concrete projects/activities within these fora that relate to the labour market.

Having in mind that many workers from the region, especially Serbia, the former Yugoslav Republic of Macedonia and B&H are engaged in Montenegro, cooperation in these areas should be organized through PES.

Also, the countries in the region, including ministries, and PES should cooperate in the area of policy and legislation, with a view to the common goal of these countries – integration into the EU.

#### *Serbia*

1. In the area of labour markets in Serbia there is regional cooperation between the national employment service and the public employment agencies that are part of the network of public employment services of the region.
2. The national employment service of Serbia has an active role in the activities of the Regional Cooperation Council Sarajevo. In 2009, the director of the national employment service of Serbia was the chairman of the Centre of Public Services of Southeast European Countries. The national employment service of Serbia is an active member of the World Association of Public Employment Services, and participates in the Managing Board of this association.
3. The possibilities for regional cooperation in the field of labour markets are seen in the area of harmonization with EU legislation, in the development of labour market policies, the exchange of good practice examples, in particular relating to activation policies, collaboration on EU-supported projects, exchanges of labour force in the case of deficiencies in occupations etc.

#### **Current state and opportunities**

Clearly, the approach to regional cooperation differs across countries as does the participation in the regional fora and initiatives. The interest in participation closely corresponds to the dependence of the national economies on regional product and labour

markets. These exercises of interests are constrained by national policy capacities (e.g. Bosnia and Herzegovina) and the effectiveness of the regional institutions for cooperation. In considering the opportunities for regional cooperation, it is important to look into the interplay between domestic labour markets, regional labour markets and the labour markets of the rest of the world. Clearly, some countries, e.g. Albania and Kosovo, do not rely on regional markets all that much, though perhaps for different reasons. By contrast, for countries with seasonal demand for labour, the regional labour market is quite important. Finally, for a number of countries out of the region migration may be much more important for the regional labour market policies to take the back seat. The issues of outward migration are of great importance for the national and regional labour markets.

The overview of existing forms of regional cooperation leads to several tentative conclusions.

1. Countries that are more advanced in the process of EU integration have also more developed institutions and are more active in the existing forms and fora of regional cooperation.
2. Forms of regional cooperation that are either initiated or supported or guided by the EU are as a rule more active and attract more interest. In general, intra-regional initiatives for cooperation are still rather rare and whatever exists or is working is connected with the EU or another external actor in one way or another.
3. Most of the existing cooperation is on the level of meetings and discussion and only to a limited extent it is project oriented. Significant interest or developed activities seem to be lacking when it comes to policy coordination or synchronization. Arguably, that should be the main area of regional cooperation.
4. There is an awareness of specific policy areas which could be addressed by regional cooperation both when it comes to temporary problems and to structural issues.

Other studies on regional cooperation in the Balkans have also shown that intra-regional will for cooperation is not very strong. Most forms and institutions for regional cooperation have been initiated from outside, mainly though not exclusively by the EU. The intention has often been for these initiatives to be transferred to the ownership of the region, but that process has not proved all that efficient. In cases in which that has been connected with the process of EU integration, there has been more interest and more initiative in this as in many other areas. In part, that has also been the consequence of the improved institutional capacity that goes with the process of accession to the EU. This is certainly the experience with the setting-up of CEFTA and with the development of the RCC.

Given that experience, the prospects for regional cooperation will be enhanced if the latter is supported by the EU and if it is connected with the overall process of EU integration. There are three areas of activity that may be higher up on the list of priorities.

- One is the regional cooperation to deal with crisis-related labour market issues.
- The second is the issue of structural unemployment which is common to most countries in the region.
- And the third is the issue of labour mobility and thus of policy cooperation and harmonization of regulation.

These issues could be addressed in a variety of ways.

There is clearly the need to regulate temporary shifts in labour demand and supply changes.

There is also the need to advance a regional approach to skill acquisition and to skill and other mismatches. This is particularly urgent if CEFTA is to deliver on the promise of increased regional investments. The key aim of the free trade agreement has been to enlarge the market of the Western Balkans in order to attract investors who will look at the region as a whole as their target rather than at each particular country. For that, the distribution of skills is extremely important.

Finally, there is the need to harmonize regulation and policy responses in order to avoid regulatory arbitrage. This has to be addressed through a more comprehensive programme of policy coordination and cannot address the labour market regulation only. That would mean that policy makers would have to be ready to cooperate much more actively than has been the case so far.

The overall conclusion, however, is that this process of regional cooperation will receive a significant boost with the advancement of EU integration.

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## ANNEX 1

### PES expenditures on active and passive measures and on PES administration

in % of total expenditures on labour market policies

Table 1	Active measures							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	13.8	18.0	10.7	8.8	6.9	11.1	11.7	11.9
Fed BiH	43.2	45.3	41.1	34.0	28.6	13.7	14.8	Na
Rep Srpska	35.8	18.7	16.8	26.9	19.4	30.4	30.8	na
MK	3.6	9.3	9.7	4.6	4.3	5.2	15.9	17.1
HR	1.5	0.5	0.2	9.3	14.4	12.0	6.4	7.6
ME	58.4	32.3	48.7	56.1	37.1	49.5	43.1	35.5
RS	9.1	2.8	8.8	7.3	8.1	8.8	9.2	na

Table 2	Passive measures							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	69.4	67.1	72.5	67.4	50.4	55.7	58.6	53.6
Fed BiH	38.2	33.7	41.9	45.3	47.9	57.1	59.8	na
Rep Srpska	28.1	50.2	49.5	52.4	60.2	50.4	51.7	na
MK	93.1	87.7	87.1	91.5	91.2	89.3	77.1	73.9
HR	83.7	85.2	85.2	75.6	69.1	70.3	80.8	70.2
ME	9.1	12.5	18.3	18.7	19.1	21.5	31.0	46.5
RS	81.3	86.5	81.9	83.5	82.2	82.4	81.8	na

Table 3	PES administration							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	16.7	14.9	16.8	13.6	15.7	15.9	17.1	18.6
Fed BiH	18.6	21.0	17.1	20.8	23.4	29.2	25.4	na
Rep Srpska	36.1	31.1	33.7	20.7	20.4	19.2	17.5	na
MK	3.4	3.0	3.3	3.9	4.5	5.6	7.0	9.0
HR	10.7	9.9	9.9	10.5	11.1	11.6	9.0	8.4
ME	32.4	55.2	33.0	25.2	43.9	29.1	25.9	18.0
RS	9.7	10.6	9.4	9.3	9.7	8.8	9.0	na

Source: National experts' contributions.

## ANNEX 2:

### Some legislative and institutional development milestones in the WBCs concerning VET

<b>Albania</b>
<ul style="list-style-type: none"><li>▪ Decision of the Council of Ministers creating the legal basis for promoting employment through 'institutional training' and 'on the job training' (1999)</li><li>▪ Law on VET (2002)</li><li>▪ Establishment of a National VET Council (2003)</li><li>▪ Adoption of the Strategy for Employment and Vocational Training (2003)</li><li>▪ Law on Education (2004)</li><li>▪ National Education Strategy 2004-2015</li><li>▪ VET Agency (2006)</li><li>▪ Strategy on Employment 2007-2013</li><li>▪ VET Strategy 2007-2015</li></ul>
<b>Bosnia and Herzegovina</b>
<ul style="list-style-type: none"><li>▪ Series of laws on education by canton and entity (end of the 1990s)</li><li>▪ Framework law on primary and secondary education (2003)</li><li>▪ VET Development Strategy 2007-2013</li><li>▪ Pre-primary, Primary and Secondary Education Agency (2007)</li><li>▪ Framework law on VET (2008)</li><li>▪ Strategic Directions of Education Development with the Implementation Plan for 2008-15</li></ul>
<b>Croatia</b>
<ul style="list-style-type: none"><li>▪ Adult Learning Strategy and Action Plan (2004)</li><li>▪ VET Agency established (2005)</li><li>▪ Law on secondary education adopted (2006)</li><li>▪ VET white paper and VET law drafted (2006)</li><li>▪ Agency for Adult Education established (2006)</li><li>▪ 13 Sector Councils established (2006)</li><li>▪ Adult Education Law (2007)</li><li>▪ Agency for Adult Education (2007)</li><li>▪ Joint Assessment Paper (JAP) (2008)</li><li>▪ New VET Law (2009)</li></ul>
<b>Kosovo</b>
<ul style="list-style-type: none"><li>▪ Responsibility for education given to the territory (2002)</li><li>▪ Law on Primary and Secondary Education (2003)</li><li>▪ Mainstreaming with Europe: an adult learning strategy for Kosovo 2005-2015 (2004)</li><li>▪ Law on Education of Adults (2005)</li><li>▪ VET law (2008)</li><li>▪ Entrepreneurship and Training Strategy (2007)</li></ul>
<b>The former Yugoslav Republic of Macedonia</b>
<ul style="list-style-type: none"><li>▪ National Strategy for Development of Education 2005-15 (2005)</li><li>▪ Strategy 2006-15 for Adult Education endorsed (2006)</li><li>▪ VET law (2006)</li><li>▪ Law on Adult Education (2008)</li><li>▪ National Employment Strategy (2010)</li></ul>
<b>Montenegro</b>
<ul style="list-style-type: none"><li>▪ Law on Secondary Vocational Education (2002)</li><li>▪ Law on Adult Education (2002)</li><li>▪ Law on Labour and Law on Employment (2003)</li><li>▪ VET Centre established (2003)</li><li>▪ VET Council and Adult Education Council established (2003)</li></ul>

<ul style="list-style-type: none"> <li>▪ Introduction of a dual form of VET (2004/2005)</li> <li>▪ Adult Education Strategy for 2005-15 and Adult Education Action Plan for 2006-2010 (2005/06)</li> <li>▪ National Qualifications Commission set up (2006)</li> <li>▪ Law on Adult Education (2007)</li> <li>▪ National Employment Strategy 2007-2010</li> <li>▪ National Strategy for Employment and Human Resource Development (2007-2011)</li> </ul>
Serbia
<ul style="list-style-type: none"> <li>▪ Policy and Strategy papers for VET (2005) with the decision to create a National VET Council, but not implemented after political changes</li> <li>▪ Strategy for the development of Adult Education (2006) and Action Plan for its implementation 2007-2009</li> <li>▪ Action Plan for VET (2009)</li> <li>▪ VET and Adult Education Council (2009)</li> </ul>

## ANNEX 3: Donor coordination

Coordination of donor support is a precondition to assure that funds are spent efficiently and effectively. This is particularly challenging when there are many actors active in the region – multilateral as well as bilateral.

At the donor coordination conference of October 2008, the European Commission, Member States, other bilateral donors and International Financial Institutions (IFIs) – EIB, EBRD, CEB – stressed for the Western Balkans (and Turkey) the relevance of the principles of the Paris Declaration on aid effectiveness (ownership, alignment, harmonization, managing for results and mutual accountability). The International Financial Institutions Advisory Group (IFIs AG) was set up by DG Enlargement to improve the coordination between the IFIs and the European Commission in the Candidate and Potential Candidate Countries. The Group's objective is to facilitate the development and upgrading of regional infrastructure in South East Europe in key sectors such as energy, transport, environment, human development, employment and social protection which require large investments and are essential for the sustainable development of the region and the beneficiary countries. The IFIs AG meets approximately twice per year and is supported by its sectoral Working Group meetings which also meet twice per year. However, so far the work of the Human Development Working Group, which focuses on the social sector, is far less developed than those of other Working Groups (e.g. Transportation or Energy). Furthermore, the European Commission and the IFIs established a Western Balkans Investment Framework with the objective to (i) pool stakeholders' resources (grants and loans) and expertise together to finance investment in projects; (ii) to strengthen coherence and synergies to improve the positive impact and visibility of investments in the beneficiary Western Balkan Countries.

When it comes to national coordination of donor support, each country in the region has its own system of coordination. The Table below summarizes existing systems. (Albania, Bosnia and Herzegovina and Kosovo will be discussed in more detail below).

In 2005 the government of *Albania* led a coordination of donors into the creation of the Department of Strategy and Donors Coordination (DSDC). The most important instrument used by the DSDC is the Integrated Planning System (IPS), a broad planning and monitoring framework which aims to ensure that the core policy and financial processes developed by the government of Albania function in an integrated manner. This planning system integrates the National Strategy for Development and Integration (NSDI) and the Government Programme Priorities, The European Integration Agenda, External Assistance, and the Medium Term Budgeting Programme/Public Investment Management. In order to improve coordination and monitoring of external assistance at sectoral level, 10 Sector Working Groups (SWG) and 30 sub-groups are established for most sectors and

sub-sectors. However, a considerable number of these SWG so far either never met or proceeded only sporadically. In 2008 the first External Assistance Orientation Document was prepared by the DSDC, analysing external assistance implementation within and across sectors. Furthermore, the document aims to assist in the budget process to ensure that domestic investment and external assistance are coordinated.

Table

**National coordination of donor support in the WBCs**

Country	Tools and Instruments for Coordination
Albania	Integrated Planning System (IPS) National Strategy for Development and Integration (NSDI) Database of external assistance
Bosnia and Herzegovina	Donor Mapping Report and Database
Croatia	While Croatian authorities assume responsibility for donor coordination, due to the fact that competencies are spread between several Ministries the EC jointly with the World Bank still play an active and important role in the field of donor coordination. Sector meetings are organized by EC and WB and (energy, transport, environment)
Kosovo	Creation of a new Centre for Donor Coordination and European Integration in 2009.
Macedonia	Central Donor Assistance Data Base (CDAD) – software application for registration of projects aiming to reduce and avoid overlap of assistance; Analytical Reports from CDAD
Montenegro	Secretariat for European Integration Database containing information about donors (under development)
Serbia	Ministry of Finance ISDACON – Database of donor projects

Source: based on Western Balkans Investment Coordination Platform:  
<http://www.wbif.eu/In+Country+Systems+of+Coordination/>

Another important initiative in donor coordination in Albania is the ‘One UN’ programme, piloting in Albania since 2007. Within this programme Albania agreed on working towards a common UN presence (including resident and non-resident UN agencies, funds and programmes). The aim of the programme is to align and support the European integration and development goals of Albania while complementing the assistance provided by other multilateral and bilateral development partners.

In *Bosnia and Herzegovina*, the Donor Coordination Forum (DCF) is a platform for information exchange among major donor agencies active in the country. Members of the DCF meet regularly to discuss ongoing and planned activities and to establish synergies in their approaches. Therefore, the DCF provides an opportunity for coordination among donor agencies, which is based on sharing knowledge, experiences and best practices. Since its foundation in 2005, the Secretariat of the DCF was collectively hosted by UNDP and the UN Resident Coordinator’s Office. However, in January 2009, the management was handed over to the BiH Ministry of Finance and Treasury. The transfer of responsibilities was initiated in order to ensure better oversight of donor activities and to

further reinforce the government's ownership over its own development. The DCF is also responsible for the donor mapping exercise, a resource management tool consisting of two components (i) an online database which enumerates the activities of 20 major donors active in BiH and (ii) an analytical report, reviewing the contribution of these activities to sectoral reforms. In the principle of mutual accountability, both the report and the database are publicly available.

In 2009 the Donor Coordination Centre attached to the Office of the Prime Minister was established in Kosovo. This was an important step to strengthen country ownership and leadership when it comes to improving donor coordination. The 2008 survey on monitoring the Paris Declaration on Aid effectiveness, highlights that donor harmonization is currently at very low levels in Kosovo. According to the report, aid to Kosovo is implemented largely through stand-alone projects. On the government side this is a result of a lack of prioritization and sectoral strategies, as well as low levels of coordination – both amongst donors and between donors and the government. Kosovo also scores low in terms of ownership (complex institutional set-up for governance, long-term vision in place but medium-term strategy adopted late), alignment (fragile systems and low level of communication between donors and the government), managing of results (young institutions with no clear strategy for collecting, disseminating and using data) and mutual accountability (lack of mechanism to implement mutual accountability).<sup>136</sup>

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<sup>136</sup> 2008 Survey on monitoring the Paris Declaration: Making aid more effective by 2010, OECD 2008.

## ANNEX 4

### Outline: Country Report

Please write a report (continuous text) including the information requested under points I and II of this template.

#### 1. Analysis of activation policies

##### 1.1 General description of existing activation policies:

- 1.1.1 The activation policies rely on a combination of demanding elements and tailored assistance. Both demanding and enabling elements of activation aim at lowering barriers towards employment, but in different ways. The classification presented in the table below clarifies the distinctions.

Please, explain when the activation approach started being used in your country. Which components (typical both for 'demanding' and 'enabling' sides) are at place in your country and to what extent are they developed? Which components are missing or weakly developed? What are the core elements of the activation concept as it currently exists in your country?

Table 1

The two elements of activation

Demanding	Enabling
<ol style="list-style-type: none"> <li>1. Duration and level of benefits               <ul style="list-style-type: none"> <li>• Lowering insurance or assistance benefits</li> <li>• Reduction of maximum benefit duration</li> </ul> </li> <li>2. Stricter availability criteria and sanctioning clauses               <ul style="list-style-type: none"> <li>• More restrictive definition of suitable job offers</li> <li>• Punitive sanctions for non-compliance</li> </ul> </li> <li>3. Individual activity requirements               <ul style="list-style-type: none"> <li>• Integration contracts</li> <li>• Monitoring of individual job search effort</li> <li>• Mandatory participation in active labour market policy schemes</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. 'classical' ALMPs               <ul style="list-style-type: none"> <li>• Job search assistance and counselling</li> <li>• Job-related training schemes</li> <li>• Start-up grants</li> <li>• Subsidized employment</li> <li>• Mobility grants</li> </ul> </li> <li>2. Fiscal incentives/make work pay               <ul style="list-style-type: none"> <li>• Earnings disregard clauses</li> <li>• Wage supplements granted in case of taking up low-pay jobs ('in-work-benefits')</li> </ul> </li> <li>3. Other services               <ul style="list-style-type: none"> <li>• Case management, personalized support</li> <li>• Childcare support etc.</li> </ul> </li> </ol>

- 1.1.2 As regards key strategic documents which serve as guidelines and framework for the elaboration of activation policies (national strategies, national plans, European strategic documents, documents stemming from regional cooperation, etc.):



Which European policies/guidelines are reflected and followed by existing activation policies?

- 1.1.3 What are the main target groups of activation policies in your country? Please, list them. Are activation policies aimed only at unemployed recipients of UB or also at the recipients of social assistance benefits?

### Question related to the 'Demanding' side

- 1.1.4 Explain about the unemployment insurance system in your country.
- Which institution is administering the unemployment benefits?
  - What are the sources of financing the benefits? What is the level of labour tax / insurance?
  - What are the eligibility criteria?
  - What are the levels of benefits and their dynamics in the last 5 years? Please, fill in the table below.

Table 2

#### Unemployment benefit

	Replacement rate %		Maximum duration (months)		Coverage %	
	2005-2006 <sup>137</sup>	2009	2005-2006	2009	2005-2006	2009
Albania	30		13		7	
Federation BiH	30-40		6-12		3	
Rep Srpska	30		6-2		3	
the former Yugoslav Republic of Macedonia	50		3-19		16	
Croatia	100		24		19	
Kosovo	-		-			
Montenegro	60		12		6	
Serbia	50		24		10	

Source: Labour markets in Western Balkans, ETF 2007

- 1.1.5 Were recently changes in the unemployment insurance system? If yes, please, explain what those changes were and when they were introduced.
- 1.1.6 Were there cuts or increases in the level of benefit? Were there reductions of maximum benefit duration?
- 1.1.7 Are the benefits paid to the entitled clients regularly and without delay? If there are delays, please explain the reasons behind.
- 1.1.8 Did eligibility and availability criteria / requirements for benefits recently become stricter?

<sup>137</sup> This column provides data given by ETF report (2007) *Labour markets in Western Balkans*

- 1.1.9 Is the receipt of the benefit conditional and depends on whether the client meets certain requirements – individual activity requirements (in terms of active job search, in terms of mandatory participation in activation measures, in terms of acceptance of proposed job offers, in terms of signing individual integration contract, etc.)? Please, explain in detail.
- 1.1.10 Are Individual Integration Contracts in use? If yes, since when? If no, are there plans to introduce them?
- 1.1.11 Is monitoring of individual job search effort practiced? If yes, since when? If no, are there plans to introduce it?
- 1.1.12 Is participation in active labour market policy schemes mandatory? If yes, since when? If no, are there plans to introduce mandatory principle?
- 1.1.13 What are the rules concerning health insurance? Does (or did?) the unemployment registration provide an automatic entitlement for health insurance? Please explain.
- 1.1.14 Explain about the social assistance system in your country. Which institution(s) is/are responsible for social assistance and is/are administering the social assistance benefits?
- 1.1.15 What are the sources of financing the benefits? Are there regional disparities?
- 1.1.16 Were recently changes introduced in the system of social assistance? If yes, please, explain what were those changes and when were they introduced.
- 1.1.17 Who is entitled to receive the social assistance benefits? Are registered unemployed people also receiving it? If yes, what is the share of unemployed receiving social assistance?
- 1.1.18 If unemployment benefits and social assistance benefits are administered by different institutions in your country, is there good cooperation and strong links between those institutions?
- If yes, please explain in which forms cooperation takes place
- If no, please explain what are the main obstacles for closer links and cooperation
- 1.1.19 Are there special packages for redundant/redeployed workers? Please, explain. What is the size of severance payment (in relation to average monthly salary)? Does the size of this support depend on the length of worker's service? How the size of this support relates to the size of the unemployment benefit?
- 1.1.20 Are there special packages or benefits for other categories of citizens? If yes, explain what are these payments (the size compared to UN benefits, duration, scale in which they are provided).

#### **Question related to the 'Enabling' side**

- 1.1.21 Active labour market programmes are the key element of activation policy. Please, explain about the history of ALMPs in your country: since when are they

in place, how was the approach towards them evolving, what are the key trends in the development of ALMPs?

Table 3

**Public expenditure on active and passive measures in % of GDP**

	2004	2005	2006	2007	2008	2009	2010
Public expenditure on the ALMPs as % of GDP							
Public expenditure on passive measures as % of GDP							

- 1.1.22 Which steps (policies/measures) are undertaken by the authorities to deal with the effects of the crisis on the labour market? Are there implications for active labour market policies? Please, specify what those implications are.
- 1.1.23 How are programmes/measures elaborated (which institutions/ministries are involved in the elaboration of the programmes, what are the roles of different actors at different levels in the process of ALMPs development, is there an ex-ante evaluation practice in place before a programme is launched)?
- 1.1.24 What are considered to be the main functions of ALMPs in your country? (How are they seen and understood?)
- 1.1.25 Do institutions dealing with social assistance recipients also use the ALMP instrument? Do they keep records on the participation of social assistance users in active labour market programmes? Is there coordination between PES and the Social Welfare sector?
- 1.1.26 Apart from active measures implemented by PES, are there other ALMPs developed and implemented by other ministries/bodies/institutions? If yes, give examples and provide explanations.
- 1.1.27 How is the implementation of ALMPs organized? Which institutions (at different levels) are involved in ALMPs? (Institutional set-up, degree of decentralization).
- 1.1.28 Are there international donors who support introduction and implementation of ALMPs? In case, yes, please specify what those organizations are and which ALMPs they support currently or were supporting recently. What is the share of ALMPs implemented via donor support (compared to all APMPs being implemented in the country)?

**1.2 Detailed description of existing activation policies**

- 1.2.1 Eurostat uses the following classification<sup>138</sup> of activation measures for the unemployed and other target groups – ‘Measures 2-7’, which are listed in the left column of the table.

<sup>138</sup> See [http://epp.eurostat.ec.europa.eu/portal/page/portal/product\\_details/dataset?p\\_product\\_code=TPS00076](http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TPS00076)

LMP measures (according to Eurostat definition) cover interventions that provide temporary support for groups that are disadvantaged in the labour market and which aim at 'activating' the unemployed, i.e. they require participants to take part in some activity, in addition to or instead of their regular job-search, that aims to broaden their skills or experience of work and therefore improve their chance of finding a regular job in future. Measures can also aim at helping people move from involuntary inactivity into employment or to maintaining the jobs of persons threatened by unemployment<sup>139</sup>.

Please provide a list of policies/measures existing in your country, if possible, according to this classification. Latest year available.

Table 4

### Classification of Measures

Measures (Categories 2-7)	Existing active programmes	Timeframe	Funds provided	Target group(s)
1. Training	1a ..... 1b ..... .....			
2. Job Rotation and Job Sharing <sup>140</sup>	2a ..... 2b..... .....			
3. Employment incentives	3a ..... 3b..... .....			
4. Supported employment and rehabilitation (including also wage supplements granted in case of taking up low-pay jobs - <i>in-work-benefits</i> )	4a ..... 4b.... .....			
5. Direct job creation (public works)	5a ..... 5b.... .....			
6. Start-up incentives	6a ..... 6b....			

1.2.2 Please provide a short description of each measure/programme that you mention above. Are these measures and programmes new/there for a long time? Explain further in more detail the objectives of each programme; it's intended outcomes, scope of implementation (i.e. in which regions of the country it is implemented, extent of the measure in terms of number of participants including such characteristics as age, gender, education breakdown, drop outs, etc.). Please indicate whether the programme was evaluated. If yes, when and what are the key evaluation conclusions?

1.2.3 How is the success of ALMPs defined and assessed? What are the main criteria on the basis of which the ALMP is considered a good example?

<sup>139</sup> See Eurostat. Data in Focus: 23/2009. Sabine Gagel - Labour market policies (LMP) – expenditure and participants 2007 [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-QA-09-023/EN/KS-QA-09-023-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-09-023/EN/KS-QA-09-023-EN.PDF)

<sup>140</sup> Job rotation and job sharing programmes are programmes that facilitate the creation of jobs for unemployed people by replacing an employed person for a fixed period (job rotation) or by partially substituting an employed person for a limited number of working hours (job sharing) – Eurostat definition

- 1.2.4 Which of the active programmes are most successful in terms of number of programme participants?
- 1.2.5 Which of the active programmes are most successful in terms of number of participants who found employment (or started business) as a result of their programme participation?
- 1.2.6 Are there any examples of ALMPs that did not work well? What were the key reasons for that?
- 1.2.7 In what ways are the active programmes monitored? Provide a list of the key indicators that are currently used to monitor ALMPs.
- 1.2.8 Which factors create(d) barriers for the development and implementation of ALMPs? Below some of such factors that might create certain obstacles are suggested. Please specify which of them are relevant and provide explanations concerning each factor (while doing it, please put on top of the list the factors that create the biggest problems). If there are other barriers apart from those mentioned below, please describe them as well.

Please, provide as much as possible the detailed explanations about each factor that plays an essential role in your country.

- Poorly elaborated concept of the active programme(s)
- The goals or objectives of the programmes are not clearly defined or defined in a contradictory way (short-term and longer term objectives, for example)
- No adequate needs assessment
- Lack of cooperation and support from the relevant decision-makers in the relevant Ministry(ies), which blocks the delivery of the activities
- Lack of understanding of needs and issues related to ALMPs by PES staff
- Lack of trained PES staff
- Lack of support from local stakeholders. If this is the case, please, indicate which institutions do not provide their support (local labour offices, local government, trade unions, others ...)
- Existing budgeting procedures and related to that:
  - annual delivery cycle which creates interruption in ALMPs delivery (discontinuity in implementation of ALMPs)
  - dominance of the goal of annual spending money (no option to shift the money for the next period)
  - regional needs are not sufficiently taken into account when the budgets are allocated
- Lack of established capacity of external service providers to implement certain programmes
- Lack of facilities, financing, equipment for the launch of certain programmes
- Difficulties with identifying and involving participants

- No adequate selection of the participants
- Lack of motivation and interest from the participants (target group)
- Insufficient professional knowledge of trainers/mentors
- Lack of publicity, information and transparency concerning ALMPs, absence of marketing actions concerning ALMPs
- Insufficient (limited) monitoring and lack of information
- Absence or limited scale of the programmes' evaluations make it more difficult to further develop or adjust the programmes

## 2. Analysis of public employment services (PES)

### 2.1 General information on PES

- 2.1.1 Status / Legal basis of PES in your country (Independent organization? Part of the Ministry? ...)
- 2.1.2 When was the PES in your country established? When the existing framework of PES was adopted?
- 2.1.3 What are the key strategic goals of PES in your country and in which documents are they laid down?
- 2.1.4 Organizational structure of PES (how many regional, local offices, training centres, etc....). Provide key information about the structure of the head office and of the regional/local offices. Please provide an organizational chart (if available). Indicate which PES departments/sections/units deal with ALMPs and in what way (elaboration of ALMPs, implementation, monitoring, analysis, etc.). Please, consult an example of PES general description provided in Appendix
- 2.1.5 Explain about existing institutional links between PES and other governmental bodies. With which institutions / organizations PES regularly cooperates?
- 2.1.6 Total number of PES employees (please, provide also information about numbers of employees at the head office, local offices, other PES structures).
- 2.1.7 What is the educational level of PES employees? Please, specify by filling the data:

Level of education	Share of PES employees having this education (%)
1-3 year vocational secondary school for skilled and highly skilled workers	
4+ years vocational secondary and grammar school	
Non-university degree	
University	

- 2.1.8 Which percentage of PES staff improved their skills (was retrained or upgraded) in the last 5 years? Please, specify what were the forms and means of upgrading skills and what were the subjects
- 2.1.9 Please fill in Tables 5, 6 and 7 below – information relevant for your country (please, check and correct if the information already presented in the table is not precise):

Table 5

### Key information about PES

Country	PES	Number of regional and local offices	Administration of unemployment benefits	Responsibility for ALMPs
Albania	National Employment Service of Albania (NEA) www.shkp.gov.al	Central office, 12 regional offices and 24 local offices		
Federation BiH Rep Srpska	Labour and Employment Agency of BiH www.agenrzgh.gov.ba	Coordination office at national level, Federation of BiH Employment Institute, Employment Service of Republika Srpska and of Brcko District. 152 offices		
the former Yugoslav Republic of Macedonia				
Croatia	Croatian Employment Service (CES) www.hzz.hr	Central office, 22 regional and 94 local offices		
Kosovo				
Montenegro	Employment Agency of Montenegro (EAM) www.zzzcg.org	Central office, 7 employment bureaus and 14 local offices		
Serbia				

Table 6

### PES staff numbers and unemployed people

Country	Number of registered unemployed			Number of PES Staff			Number of PES Staff working directly with clients (front office staff)		
	2006	2008	2009	2006	2008	2009	2006	2008	2009
Albania	157,000	141,7		431	372			175	
Federation BiH Rep Srpska	524,839	134		750	578			158	
the former Yugoslav Republic of Macedonia	380,000	343,4		506	525			276	
Croatia	291,616	240		1,189	1258			723	
Kosovo	320,000	335,9		-	182				
Montenegro	38,869	335,9		342	342			258	
Serbia	916,484	728		2,075	2232			1356	

Sources: 2006 -Labour markets in Western Balkans, ETF 2007;

2008 (source: ETF Human Capital and Employability in the 14 partners of the Union for the Mediterranean, Brussels, 26-27 November 2009, p. 47

Employment Services and Active Labour Market Programmes in Eastern European and Central Asian Countries. World Bank. October 2009, pp. 26-27) <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf>



2.1.10 What is the estimated caseload (the ratio of unemployed people to PES counsellors)? Please, fill in the table below – information relevant for your country on the basis of the data that you already provided in the Table 6.

Table 7

**PES key ratios**

Country	PES Staff: Unemployed Ratio			Ratio of front-line counsellors to total PES staff (%)			Caseload (clients per member of front office staff)		
	2006	2008	2009	2006	2008	2009	2006	2008	2009
Albania	1:364				47			851	
Federation BiH	1:700							758	
Rep Srpska					60.5			848	
the former Yugoslav Republic of Macedonia	1:750				52.6			1244	
Croatia	1:245				57.5			416	
Kosovo	1:160								
Montenegro	1:113				75.4			150	
Serbia	1:442				61.2			533	

2.1.11 Total budget (in local currency and in Euro equivalent) and what are the main sources of budget formation. Please indicate percentages (...% of state budget coming from unemployment insurance contributions; ...% of budget coming from taxes; etc.)

2.1.12 Please indicate key features of budget allocation (...% of state budget spent on unemployment benefits; ...% of state budget spent on active employment policies; ...% of budget spent on management; etc.)

2.1.13 What is the number of vacancies directly notified to PES? What is the number of people placed (in full-time and temporary jobs)? Please, provide data for 2006, 2007, 2008 and 2009. What are the observed tendencies and what are the reasons behind?

2.1.14 Is notification of vacancies by employers to the PES obligatory in your country? If yes, are there sanctions foreseen for not notifying?

2.1.15 Does PES capture the vacancies via other sources (apart from those notified directly by employers)? If yes, what are the sources (for example: from personnel advertisements in newspapers; through PES website(s) on which employers can enter their vacancies;

vacancies notified by other intermediaries on the labour market, like recruitment and selection companies; etc.) Please, specify and explain.

2.1.16 What is the share of vacancies directly notified by employers in the total vacancies captured in the PES-registrations?

2.1.17 What is the market share of PES? Does the PES have special strategies to increase the capture of vacancies?

2.1.18 Which proportion of the employers that notified their vacancy to the PES, requested active assistance/involvement of the PES in filling the vacancy?

2.1.19 If the PES has a website on which employers can enter their vacancies and/or job seekers can access vacancies: please answer the following questions with yes or no.

	Yes	No
Employers and job seekers can access the databases on the PES website freely without registration	<input type="checkbox"/>	<input type="checkbox"/>
Employers can only enter vacancies after registration of basic company information	<input type="checkbox"/>	<input type="checkbox"/>
Self-registration of vacancies data through internet is possible and PES has no control over it	<input type="checkbox"/>	<input type="checkbox"/>
Self-registration of vacancies data through internet is possible but PES checks and clears the self-registered vacancies before they can be viewed	<input type="checkbox"/>	<input type="checkbox"/>
All captured vacancies by the PES can be accessed on the website	<input type="checkbox"/>	<input type="checkbox"/>

2.1.20 According to the ETF report<sup>141</sup> the following figures characterized WBC's PES expenditures in 2003-2005 (information for those years was provided by PES of WBCs).

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<sup>141</sup> Labour markets in Western Balkans, ETF 2007

Please, complete the tables below by providing similar information for the consecutive years.

Tables 8-10

### Expenditures on active and passive measures and on PES administration

in % of total expenditures on labour market policies

<b>Table 1</b>	<b>Active measures</b>							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	13.8	18.0	10.7					
Fed BiH	43.2	45.3	41.1					
Rep Srpska	35.8	18.7	16.8					
MK	3.6	9.3	9.7					
HR								
KS	na	na	na					
ME	58.4	38.9	45.0					
RS	9.1	2.8	na					

<b>Table 2</b>	<b>Passive measures</b>							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	69.4	67.1	72.5					
Fed BiH	38.2	33.7	41.9					
Rep Srpska	28.1	50.2	49.5					
MK	93.1	87.7	87.1					
HR								
KS	na	na	na					
ME	9.1	15.0	23.8					
RS	81.3	86.5	na					

<b>Table 3</b>	<b>PES administration</b>							
	2003	2004	2005	2006	2007	2008	2009	2010
AL	16.7	14.9	16.8					
Fed BiH	18.6	21.0	17.1					
Rep Srpska	36.1	31.1	33.7					
MK	3.4	3.0	3.3					
HR								
KS	na	na	na					
ME	32.4	46.1	31.2					
RS	9.7	10.6	na					

2.1.21 Was the PES in your country recently reformed or modernized? If yes, please, provide brief information about it: When did it happen? Is the reform process finalized? What were/are the main directions of the reforms? Did these reforms have an impact on the activation approaches (in particular towards ALMPs)? This we can ask in a follow-up.

2.1.22 According to the ILO definition<sup>142</sup> the four core functions of the PES are:

<sup>142</sup> ILO support for the role of public employment in the labour market, Geneva, November 2009, p.2

- Labour exchange (job brokerage)
- Labour market information
- Labour market adjustment programmes
- Unemployment insurance administration

Please, indicate in the table below the distribution of those core functions in your country

Table 11

**Distribution of PES core functions**

<b>Core functions of PES</b>	<b>PES central office Yes / No</b>	<b>PES regional offices Yes / No</b>	<b>PES local offices Yes / No</b>
1. Labour exchange (job brokerage)	<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
2. Labour market information	<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
3. Labour market adjustment programmes (including ALMPS)	<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
4. Unemployment insurance administration	<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>

2.1.23 The core functions of modern PES include a large scale of tasks. Among them: career advice, validation of experience, vocational rehabilitation, motivation of jobseekers, accompanying workers wishing to change the job, support to vulnerable groups, provision of training to jobseekers, as well as advice on training to prepare people to return to work.

Please, specify which of those tasks the PES in your country is dealing with. Explain in detail about each of the performed tasks:

- the scope and scale of each task implementation
- the level of the PES (central, regional, local) which deals with this task

2.1.24 What are the key capacity-building challenges to be addressed by PES in your country?

## **Appendix: Example General Description of PES (here given CES Croatia)**

CES is a state-owned, but independent public body (according to the new labour legislation from July 1996). The main functions of CES are laid down in the Act on Job Placement and Unemployment Insurance, published on 21 March 2002. It is governed by a Managing Board of 11 people, appointed by the Government, representing state institutions, employers, trade unions and unemployed people. Responsibility for the administration of the CES is with its Director-General, who is appointed by the Government.

The Managing Board adopted the Strategic Plan (2008-2011) for the CES in early 2008. This defined the Vision, Mission and Strategic Goals of the CES.

The CES has a three-level organizational structure to deliver its services:

- Central Office
- 22 Regional Offices
- 95 local offices

The principal functions of the Central Office are the formulation of policy, monitoring performance and ensuring that the CES is represented at national levels in policy discussions. In addition to the Director-General's office there are five Directorates, each with sub-departments and divisions. These cover the following areas:

- Employment Placement and Preparing People for Work
- Legal Affairs, Personnel and Administration (including staff development and training)
- Finance, Accounting and Asset Management
- Organizational Development and Project Implementation
- PR and International Cooperation, and administration of EU projects, Internal Audit.

The four largest regional offices (Zagreb, Rijeka, Split and Osijek) each have six departments, which are accountable to the Regional Director. These are:

- Statistics and Analysis
- IT
- Project Implementation
- Legal Affairs, Personnel and Administration
- Finance and Accounting (including divisions dealing with Unemployment Entitlements and Staff Development and Training)
- Employment and Placements (with divisions responsible for Placements, Liaison with Employers, Active Labour Market Policies, Vocational Guidance and Training, Careers Information and oversight of local offices.

The other regions are similarly structured, but they do not have a dedicated IT department or separate departments dealing with placement issues. Staff development and training is a function of the Legal Affairs, Personnel and Administration Department.

The Regional Offices have oversight of labour market services for their geographical areas, and have responsibility for identifying regional needs and ensuring that services are geared to meet them.

The network of local offices provides front-line services to customers and clients.

CES has a nationwide coverage and ability to offer services throughout Croatia. In recent years the CES has been committed to a policy of devolution, with the centre providing support to the regions, rather than micro-managing them.

At the beginning of 2009 the CES had a total of 1,251 employees: 115 in the central office and 1,136 in regional offices. There is a large concentration of staff in the Zagreb, Split, Osijek and Rijeka regional offices (38.7 per cent of all staff).

### 3. Example of 'good practice'

#### 3.1 Introduction

3.1.1 Under this point please identify and describe 'good practice' examples. The purpose of 'good practice' examples is to highlight successful policies, stimulate exchange of experience and learning process between Western Balkan Countries. 'Good practices' may be certain policy measures (such as specific training programs) but could also be organizational practices (such as the way a certain policy measure is carried out, the structure of an organization, the infrastructure, etc.)

When looking for "good practice" examples, you need to focus on 2 things:

- -Some measure of success: this could be the effectiveness of the measure (whether it really meets the aims); possibly also its efficiency (whether it achieves a certain objective with a minimum amount of resources); look for evaluations, wherever possible;
- -Characteristics that make it worthwhile to present this policy to other countries and/or institutions in order to give them an opportunity to learn. (This could be something particularly innovative or new). In that case there may not exist any evaluation; however you should at least have some indication that the measure will have the intended impact.

What makes good practice interesting in the context of this study is the fact that Western Balkan Countries may face similar challenges and have more in common with each other than with Western European countries that have more resources and a longer track record with activation policies. Therefore, an exchange of experience may be particularly useful.

We suggest that you look for several 'good practices' in your country (at least 2-4). If you think, some of the examples are better than others, you should rank them. We will collect the examples from each country and try to make a selection on the basis of your suggestions. Our selection criterion will be to find as many different examples as possible in order to make the exchanges of examples as interesting as possible.

For that reason, we ask you to follow a two-step process:

- We ask you to look for 'good practices' and give a brief description of them in the following first stage questionnaire.
- On the basis of your suggestions and ranking we will choose a few examples from each country. We ask you to fill out the following second stage questionnaire, which is more detailed, only for this smaller number of examples.

### 3.2 First stage questionnaire

	Key characteristics and questions	Title of the measure/ programme
1	Which problems is the measure/programme addressing and aiming to resolve?	
2	What are the key objectives of this measure/programme?	
3	Short description of the measure / programme. Explanation of the basic idea of the good practice	
3.1	Who are the main target groups of this measure / programme?	
3.2	Scope and level (nationwide / regional / local) of the measure / programme (degree of decentralization)	
3.3	Do the organizations carrying out the measure operate <ul style="list-style-type: none"> <li>- A) as part of the PES?</li> <li>- B) on a contractual basis with PES?</li> <li>- C) independently of the PES?</li> </ul>	
3.4	How many organizational units are involved?	
3.5	What is the time frame of this measure / programme (starting date, end date)?	
3.6	Budget allocated including <ul style="list-style-type: none"> <li>- total funds</li> <li>- per participant</li> <li>- sources</li> <li>- period (annual?)</li> </ul>	
3.7	Who is financing the measure?	
4	What was the outcome of the measure? <ul style="list-style-type: none"> <li>- In terms of employment of people participating in the measure</li> <li>- Measurable results – not just numbers of participants</li> </ul>	
5	What is special about this 'good practice'?	



### 3.3 Second stage questionnaire

Please take a second look at your first stage questionnaire and add information when you think it is necessary.

	Key characteristics and questions	Title of the measure/ programme
<b>1</b>	<b>How is the good practice carried out?</b>	
1.1	Selection of participants (principles and procedures)	
1.2	How large is the share of customers affected by this measure?	
1.3	Which resources are made available to carry out the measure/programme?	
<b>2</b>	<b>Budget</b>	
2.1	Which share of the total PES ALMPs budget is allocated to this measure/programme?	
2.2	What is the share if international donors in the budget of the measure (if relevant)?	
2.3	Has the introduction of the measure caused a shift of PES resources away from other programmes?	
2.4	Does the measure incur 'costs' (other than financial and personnel resources) for the PES?	
<b>3</b>	<b>Strategy</b>	
3.1	How does the good practice measure fit into the general strategy of the PES / relevant Ministry?	
3.2	Which EES priorities/guidelines this measure reflects?	
3.3	Who designed the intervention and in what way?	
<b>4</b>	<b>Outcome</b>	
4.1	Which elements of the intervention are considered to be the most effective, why?	
4.2	Which factors conditioned the effectiveness of the intervention?	
4.3	Which factors created obstacles for the implementation (including external factors and implementation difficulties)?	
4.4	Has the good practice measure been evaluated? - A) yes, by independent experts - B) yes, by internal experts - C) no - D) no, but the evaluation is planned in the near future (specify when)	
<b>5</b>	<b>Impact</b>	
5.1	What kinds of impacts were produced by the intervention? - A) the measure enhances the chances of the	

	Key characteristics and questions	Title of the measure/ programme
	participants to find employment - B) the measure already brought .....% of participants in employment - C) the measure improved the participants' qualifications which are requested by the labour market - D) the measure contributes in a way that vacancies should now be filled easier	
5.2	Has the introduction of this measure changed the perception of the quality of PES services by customers / government decision makers / general public?	
5.3	Has there been some critique of this measure? If yes, who was expressing critical views and which aspects were criticized?	
5.4	Is there room for improvement in the implementation of the measure? In what ways can it be improved?	
5.4	Have there been major revisions in the implementation of good practice measure?	

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