

Employment Policies in South-East Europe

Common Challenges and Different Scenarios

Lyuben Tomev, Marc Meinardus (Eds.)



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Office Bulgaria
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97, Knjaz Boris I Street
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Authors: Viorica Antonov, Mihail Arandarenko, Valeriu Frunzaru, Vojin Golubovic, Jeton Mehmeti, Todor Milchevski, Damir Miljević, Ledio Milkani, Vesna Stojanova, Lyuben Tomev, Iva Tomić, Maja Vehovec

Responsible: Marc Meinardus, FES Bulgaria

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Foreword

With the end of socialism, South East European societies experienced a most dramatic increase in poverty and socio-economic inequality. Some might have hoped that the transition from the generalised inefficiency of bureaucratic socialism to Western-style capitalist market economies would bring Western-style mass prosperity to South Eastern Europe, but the actual experience of social polarisation proves the opposite.

It is much less clear how social inclusion can be re-established in economies that have productive employment only for a reduced part of the country's work force and in states that no longer are able to appropriate and redistribute much of the national product. On the other hand, the protracted existence of large-scale social exclusion is a blatant offence to the ideal of a "good" society and of a democratic state that is at the service of all its citizens. It is entirely out of tune with the "European Social Model" and with the region's European aspirations. Moreover, it threatens to erode the legitimacy of the capitalist market economy and – especially important in the post-Yugoslavian countries – it can reinforce destabilising identity politics. In fact, the quest for social inclusion defines one of the key challenges for the post-communist countries of South Eastern Europe.

It is against this background that the Friedrich Ebert Foundation (FES), through its regional project "Dialogue South East Europe", in 2007 launched a project "Towards Social Inclusion in South Eastern Europe". The project was conceived of as a means to direct public debate in the various countries towards the challenge of social exclusion and towards policy options of responding to it. It was during this conference that the participants agreed that there is a need for more research and debate on the issues of employment policies in the region. The FES regional project consequently decided to broaden the original project "Social Inclusion" to a

more permanent working line on "Social Policy in South-East-Europe". A number of thematic ideas were put forward and further sequences of studies and conferences were initiated, the results of which are published in the series of FES Regional Studies in South East Europe. The first book on "Social Inclusion in South-East Europe – National and Regional Policy Priorities for a Social Europe" was released in 2010. The second one, "Equity vs. Efficiency – Possibilities to Lessen the Trade-Off in Social, Employment and Education Policy in South-East Europe" – followed in 2011. In the same year a study on "Welfare States in Transition – 20 Years After the Yugoslav Welfare Model" was published. With the present volume on "Employment Policies – Common Challenges and Different Scenarios", we continue our work.

On the basis of a framework paper elaborated by Lyuben Tomev, the FES, through its network of offices in the region identified competent scholars of social sciences and economics that would participate in the regional research and elaborate the respective country case studies. 10 countries participated and submitted full-scale country studies. These are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo*, Macedonia, Moldova, Montenegro, Rumania, and Serbia. Lyuben Tomev summarised these findings into a regional overview.

This book includes the national analyses of the labour market and employment policies of the above-mentioned 10 countries from South Eastern Europe. Although most of the papers follow the common structure, which was put into the framework of the editors, there are some dimensions and peculiarities characterising every national paper. The paper for Albania, prepared by Ledio Milkani, underlines both the progress in in-

* "This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence"

dustrial development and sectors of utilities during the last several years and the issues of migration and integration of returned emigrants and refugees. At the same time, Damir Miljević describes the difficulties of the labour market policies in a country with a very complex government structure like in Bosnia and Herzegovina, where since 2008 the employment has been created mainly by the public sector, and strong regional differences continue to exist. In the paper for Bulgaria Lyuben Tomev presents the situation after the accession to the EU, focusing on the fundamental factors which have affected the labour market and also on the evaluation of the active labour market policies and the role of the programmes of the European Union for support of such policies. In the paper for Croatia all the comparisons are made on the basis of data for EU-27, but attention is paid to some peculiarities like the rigid labour legislation and the still large proportion of employment in agriculture as well. Jeton Mehmeti presents the labour market existing under the establishment of the new state of Kosovo, where the employment level is the lowest in Europe and the level of unemployment is very high, together with a strong emigration wave. In Macedonia, according to Vesna Stojanova and Todor Milchevski, an increase of employment in the private sector could be observed, although the labour market has, for many years, suffered from a weak economic performance and low GDP growth, and the level of unemployment is very high. Viorica Antonov from Moldova

underlines the substantial structural changes in the labour market, caused by a pronounced demographic crisis, migration and the transition to market economy, as well as the high level of emigration. In the paper for Montenegro - both a reduction of employment in industry and agriculture as well as an increase in employment in services are mentioned, together with issues of migration. Valeriu Frunzaru from Romania pays attention both to the issues caused by accession to the EU like emigration and restrictions of the free movement, put by some of the EU-member states, and to the problems caused by the particular transition to market economy like the dual labour market and the large share of employment in agriculture. Mihail Arandarenko pays special attention to the crisis influence on the labour market in Serbia, as well as to the multi-faceted duality of the national labour market.

The FES is aware that more is needed and it intends to continue its efforts to contribute to the build-up of political pressure for effective policies of social inclusion in South Eastern Europe.

We wish to extend our sincere gratitude and appreciation to all the contributors to the present volume, as well to the language proofreaders and the technical staff that have made this publication possible.

The editors, Sofia, May 2012

Lyuben Tomev
Marc Meinardus

1. Theoretical Framework and Practical Norms

Employment Policies

Lyuben Tomev

Employment Policy is one of the major instruments for the post-crisis recovery of the national economies, alongside investments and social protection. This is the understanding underlying the **Global Employment Pact**, adopted unanimously by government representatives, employers, and employee organisations from member states belonging to the International Labour Organization (ILO) in June 2009.

This document attempts to make a brief outline of the theoretical views and to indicate the framework for a more effective employment policy with practical applications, which has been arrived at on the basis of the experience amassed thus far not only by the countries in the region of South-Eastern Europe (SEE), but also by the countries of the entire continent of Europe in the form of “good European practices”. These practices are applicable irrespective of the existing social and economic differences in the countries of South-Eastern Europe.

1.1 Contextual Framework

Employment is a basic notion of macroeconomics, connected with the economic actualisation of the labour force at large. This actualisation can take place either in the form of hired labour relations, or in the form of self-employment, or within the limits of a family business. Therefore, employment policy is the combined totality of the various forms, mechanisms, and instruments for exerting influence, which directly or indirectly affect the labour force supply and demand.

Most frequently, employment policy is subdivided into two types of policies – active and passive.

Passive policies are focused on the need for securing a minimum social standard of living of the unemployed. In other words, these policies rather “cure” the consequences of the risk of someone remaining jobless, and to a lesser extent they regulate employment and are used to prevent unemployment. In each of these cases, however, the various registration regimes and conditions for gaining access to the systems established to provide unemployment benefits and welfare support in their turn have an effect on the opportunities for employment and on the attitudes involved in seeking such employment.

Active policies apply various forms and mechanisms for a direct impact on the labour supply and demand, and they encompass both the primary and secondary labour markets. Their major objective is to activate employment by preserving existing jobs, on one hand, and to encourage job creation and self-employment as a form of individual entrepreneurship, on the other.

In modern conditions, the regulatory functions of employment policy are connected with the notions of full and partial employment and the natural level of unemployment derived from them. Political actors should observe the rule that employment is a means, not an end in itself. Full employment would be a meaningless concept, should we happen to regard it as employment for each and all, which must be achieved at any cost whatsoever.

Last but not least, most effective is such an employment policy that is capable of finding its own specific dimensions, applies one or another set of instruments depending on the demographic situation, and is embedded within the context of the overall social policy. It is in this sense that employment policy – inasmuch as it is governed by a multitude of factors – should be strictly applied in tune with the following circumstances, namely:

- the different phases of the business cycle;
- the structural changes taking place in production;
- innovations and the advance of science and technology;
- the educational qualifications and professional training of the workforce;
- the emigration and immigration policy of the government;
- the current social standards and minimum remuneration levels concerning not only the labour force, but the population as a whole.

1.2 Employment and Labour Market – Objectives and Restrictions

The labour market (i.e. the labour force market) is usually defined as the economic environment where workers and employees who seek employment sit down, figuratively speaking, at one side of the table to meet and negotiate with employers (individuals, business entities or organisations) who sit at the other side of this figurative table. The modern labour market is highly regulated and can be regarded as the aggregate totality of legal norms, procedures, and institutions, which facilitate the search and ensure both the possibility of finding the preferred workforce and its inclusion in the labour process, thus promoting the achievement of the desired employment rate.

Employment is also the more general notion concerning the economic actualisation of the labour force as a whole. In other words, it encompasses not only the people who receive remuneration in the form of wages or salaries for the work they do, but also all those who receive income by working for themselves. As far as measuring employment is concerned, it is the ratio of all the people practising one or another form of employment to the overall number of the population.

Hence, the notions concerning the labour market and employment policies, however close they are in their content and nature, ultimately

differ in terms of their scope at least. Actually, the emphasis of the labour market notion is the cost of the labour force, while the notion of employment focuses on the very effect, whereby a person is included in public production.

Because of the need to limit the consideration of the problem concerning employment, the labour market and employment policies within a distinct and less broad context, this study highlights the following priority areas and makes them subject to analysis:

- The impact of European policies on national measures and employment programmes;
- The situation in the labour market from the standpoint of unemployment, employment, and internal and external mobility;
- Active policies for the encouragement of employment, both on national and regional levels;
- Passive policies on the labour market;
- Horizontal principles of employment policy.

1.3 The European Dimensions of Employment Policy

The lessons learnt during the recent global economic crisis, which revealed substantial structural deficiencies and imbalances in the national economies of the EU member states, brought about the need for a sober reconsideration of the strategic directions concerning the policies in the sphere of employment as well.

1.3.1 The New “Integrated Guidelines for Economic and Employment Policies” of October 2010

These new integrated guidelines for economic and employment policies, put in place in October 2010, outline a new ten-year strategy for jobs and smart, sustainable and inclusive growth, as well as the common priorities and objectives of the national employment policies in the EU member states, namely:

- To increase of the number of men and women on the labour market, decrease the structural unemployment rate, and improve job quality overall;
 - To develop labour force skills in compliance with the requirements of the labour market and in line with the need to encourage life-long learning;
 - To improve the quality and results obtained from the systems for education and training on all possible levels, and to expand the opportunities for inclusion of trainees in the third or an equivalent degree of education;
 - To support all the initiatives concerning social inclusion and the combat against poverty.
- To reduce by at least 20 million the number of poor people or people threatened by poverty and social exclusion.

These goals can be attained by the so-called “inclusive growth” – i.e. by promoting an economy marked by a high employment rate and capable of generating economic, social, and territorial rapprochement. What this means for people is that they should become more proficient by investing in their skills. What this means for member states is that they should further their combat against poverty, and update and modernise their labour markets, their educational systems and social protection mechanisms, which will help them anticipate and manage change and ultimately build a consolidated and cohesive society.

1.3.2 The European Employment Strategy (EES)

The EES is now durably embedded and has become an inseparable part of the EUROPE 2020 Strategy, which sets forth five ambitious goals for the EU member states to achieve in the areas of employment, innovations, education, social inclusion, climate change and energy by the year 2020. Three of these goals have either a direct or indirect bearing upon the improvement of the qualitative and quantitative indicators concerning employment, namely:

- To achieve a 75 percent employment rate among people aged between 20 and 64 (given the fact that the current employment coefficient stands at 69 percent), including – *inter alia* – the larger labour market participation of women and elderly workers, as well as the better integration of migrants within the labour force;
- To decrease the relative share of early school drop-outs to below 10 percent and to increase at least up to 40 percent the number of people with higher or equivalent professional education or training in the 30 – 34 age bracket;

1.3.3 The Programme for New Skills and Jobs

This programme is among the leading initiatives of the EUROPE 2020 Strategy. All actions concerning this priority focus on the modernisation and consolidation of employment policies, the systems of education, training, and social protection, based on the enhanced participation in labour-related life and reduction of structural unemployment, as well as on expanding the practices of corporate social responsibility among business entities.

At the level of the European Union, the European Commission has committed itself to reconsidering the Working Time Directive and to better implementing the Directive on Workers Sent on Official Business Trips, to defining and implementing the second stage of the Programme for Flexible Security (or the so-called Flexicurity Programme), to facilitating and encouraging labour-related mobility within the EU, and to implementing the strategic framework for cooperation in the area of education and training.

On a national level, the EU member states must do their best to:

- facilitate employee transitions on the labour market, making it easier for them to better cope with professional and work-related life, on one hand, and successfully combine it with family life, on the other;
- control the effectiveness of taxation and the social systems to the purpose of activating work-related employment and the start-up of independent business entities;
- encourage the “active aging” policies and equality between the genders;
- implement the European Qualifications Framework (EQF) by setting up respective National Qualification Frameworks;
- develop partnerships between the spheres of education/training and employment/work, including the encouragement of social dialogue within and between them.

The New Skills and Jobs Programme complements another leading EU initiative, namely the Youth on the Move Programme, the purpose of which is to help young people acquire the knowledge, skills, and experience they need in order to start up the first job ever in their working life.

1.3.4 Mechanisms of Transposing the European Employment Strategy (EES) into National Employment Policies

Actually, the EES represents a broad framework of basic principles, policies and ideas. The open method of coordinating the EES provides for the exchange of necessary information and at the same time facilitates the discussion and coordination of the employment policies implemented by the various EU member states.

Each year, the national governments and European institutions issue a package of measures in the area of employment, such as:

- guidelines concerning the national employment policies, which contain an out-

line of the major priorities and objectives subject to implementation;

- national reports, which contain a description of the employment policies implemented in the individual member states;
- the candidate member states, which are in the process of EU accession, prepare reports outlining the progress made in the effort to meet the recommendations contained in the Joint Assessment Paper (JAP) on the fulfilment of employment priorities;
- The European Commission analyses these reports in terms of their compliance with the objectives and the leading initiatives contained in the EUROPE 2020 Strategy and, in its turn, issues a report, which – if need be – is accompanied by respective recommendations to the national governments.

Parallel to these procedures, the European Commission, the national governments, the trade unions, the employers’ organisations, and other EU institutions (e.g. the European Parliament, the European Economic and Social Committee – ECOSOC, the Committee of the Regions, etc.) are engaged in a continuous dialogue with respect to the implementation of the European Employment Strategy – EES.

1.4 The Labour Market Situation

The labour markets in South-Eastern Europe (SEE) have been badly affected by the recent global economic and financial crisis. The external effect of the crisis, however, should not be overestimated. Some of the countries in the region already had substantial domestic problems, such as a growing budget deficit, high inflation rates, and obvious symptoms of “overheating” national economies. Given the structurally weak labour markets, such as those of the countries in the region, these defects have been amplified, while the process of recovery has been protracted.

1.4.1 Macroeconomic Dimensions of the Crisis Impact on the Labour Market

It is possible for the scenarios in the various South-Eastern European countries to differ significantly and these differences need to be described in this section of the survey. The impact indicators laid down below, however, merely outline a scheme of causal dependencies as observed in principle.

Economic growth plummeted from relatively high growth rates to negative values during the peak of the crisis. The major structural sectors and branches of the economy sustained heavy blows because of declining orders and blocked opportunities for sales realisation on the domestic and foreign markets.

Industrial output marked a negative growth rate, and so did development rates to an extent unseen thus far. The construction sector was seriously affected as well, because of the sharp drop in demand for residential and office buildings. This in turn affected other two important sectors of the national economies, such as power generation and transportation.

The service sector as a whole did not have as hard a time as the industrial sector did, but the trends of development there are far from unequivocal. The tourist sector has marked variable trends in the individual countries from the region: the commodity turnover in the sector of trade marked a significant drop, while the banking and financial sectors remained relatively stable.

Agriculture in the South-Eastern European countries recorded negative development trends. The problems connected with the low competitiveness of this sector have deepened due to the declining opportunities for selling farm produce on foreign markets, on one hand, and because of the shrinking domestic consumption, on the other.

Domestic and foreign investment activity has sharply declined owing to the deteriorating economic environment and the poor interest of foreign investors to the countries in the region. Lending conditions have tightened, which has cooled down investment intentions and aggravated the opportunities for development in the business environment at large, especially as far as small and medium-sized business is concerned.

Domestic consumption has considerably shrunk under the pressure of the depressed purchasing power of the population. The purchasing power in some of the countries has deteriorated even further due to some unpopular measures applied by their governments, such as the imposed freeze or even cut in incomes. In the prevailing majority of cases, there were no measures for encouraging domestic demand, and where such measures were actually applied, they proved insufficiently effective to bring about the desired increase in demand.

Inflation is one of the major macroeconomic indicators. This indicator is of a cyclic nature, i.e. in the phases of contraction and recession the overall price level declines and marks diminishing rates, but under the impact of a number of fundamental, structural, or external factors it is possible for this rule to fail and then we register high and rising levels of both inflation and unemployment (i.e. we observe a situation of stagflation when the economy stagnates and at the same time inflation rises). The current situation in the SEE region holds the potential for such a danger, given the rapidly rising prices of petrol and staple foods on the international markets. For the majority of the countries in the region, however, such price rises precede the process of bottoming out of the crisis and the subsequent upturn and recovery of the economy.

1.4.2 Unemployment – General Trends and Forms of Manifestation

The unemployment rate is one of the most important indicators revealing the phase which characterises the national economy at any given moment from the point of view of its cyclical development. Depending on the depth of the crisis, its impact on unemployment can be described in terms of the different forms of its manifestation.

Cyclical unemployment occurs as a result of fluctuations in the manufacturing output due to the declining demand for goods and services, and accompanies the economic slump in the periods of economic contraction and recession. In principle, cyclical unemployment can affect all branches and sectors of the national economy. However, the most vulnerable are the jobs in those economic activities, which have been hit hardest by the deteriorated market environment. The regions where these jobs have been concentrated thus far are also most vulnerable.

During typical economic cycles and in rapidly restructuring economies (which is a prerequisite for entering the upturn phase of the business cycle) unemployment usually improves its rates parallel to the increasing rate of economic growth. In structurally weak economies, however, which suffer from an underdeveloped labour market, the high unemployment rate may persist for a longer period of time, thus marking a **prolonged time lag** in comparison with economic growth. In this way, unemployment may lag behind economic growth for quite a lengthy period of time.

According to the classical notion and type, **cyclical unemployment is connected with a decline in the price of labour** (i.e. salaries and wages) and the more flexibly the labour market reacts, the better the possibilities are for overcoming this type of unemployment. In the contemporary practice of crisis man-

agement, however, what is increasingly frequently used is a rich arsenal of other tools and mechanisms, which make it possible to preserve the price of the labour force or at least to avoid it being drastically cut.

What is observed in the conditions of cyclical unemployment is that there is a sharp drop in the incidence of **frictional unemployment**, which is connected with the right and opportunity of each individual to change jobs at their own will in the search of the most favourable conditions of work and pay. The risks accompanying this change of jobs grow significantly at a time of crisis, and in principle this concerns the lesser skilled workforce. And yet, taking into consideration the lower labour demand on the whole, qualified workers and employees start to have second thoughts and become quite cautious with respect to any plausible opportunities for a better actualisation on the labour market, which prompts them to refrain from changing jobs.

From the point of view of the statistical coverage of unemployment, there is a possibility for various scenarios. As a rule, the crisis exerts its impact in two directions by increasing the rate of both **manifest and hidden unemployment**, but the intensity of these two streams can differ. Should there be easy access to the labour market and the job centres respectively, coupled with corresponding incentives and conditions for registration, the manifest unemployment rate grows at a faster rate than the hidden unemployment rate. On the other hand, the restrictive measures and the compulsory leave from work, which companies in a dire financial situation usually practise, accelerate the predominant rise of the hidden unemployment rate.

A matter of concern is the rapid increase of the number of **discouraged people**, whose chances of finding a job on the primary labour market sharply diminish, due both to the growing share of similar discouraged people

and to the fact that they no longer qualify for a job either due to outdated or insufficient training, or lost professional skills. The rising number of discouraged people above the usual number of the well-established group means that they are now joined not only by people lacking qualifications, but also by an increasing number of people of good professional standing and educational level.

On a regional level, the differentiation in the unemployment rate has increased. Areas of a low economic profile clearly stand apart because they concentrate large groups of unemployed and discouraged people. The closing-down of enterprises which are the structural backbones of the local economy, or the massive job cuts carried out there, additionally aggravate the situation on the labour market in individual regions.

Significant changes take place in the **structural cross-section** of some of the regions. They bring about a rising unemployment rate in two particular age brackets – young people and people nearing retirement age. The share of the unemployed among the people living in a deprived situation also rises, and these are people who cumulatively run several risks, e.g.: they have no education whatsoever or have a low educational level; they are without a profession or have little professional experience; they are without training or the level of their training is low; they belong to minority groups of the population; or they have stayed unemployed for a long period of time – for over 1 year and for more than 2 years.

1.4.3 Specific Features by Sectors/ Branches and Forms of Employment

Employment and unemployment are the two main characteristic features of the labour market. They are interrelated by close connections and functional dependencies. This does not mean, however, that the decrease in employment automatically leads to increasing unem-

ployment at a similar rate, and that – on the contrary – increasing employment brings about a similar decrease of the unemployment rate.

The reasons underlying such asymmetrical developments could be the following:

Methodological: The coefficient of employment is the relative share of the employed in comparison with the overall number of the population within the respective age bracket of people eligible to employment, whereas the coefficient of unemployment expresses the ratio between the number of the unemployed and the entire labour force (i.e. the economically active population) within the respective age bracket. In other words, the two components of the workforce (i.e. the sum of the employed and unemployed persons) are measured in comparison with different indicators – the overall population, on one hand, and the economically active population, on the other, and what takes place between them is a continuous dynamic exchange.

Practical: Actually, people going out of employment have certain reasons to do so and thus they find themselves in different situations, such as:

- They leave the group of the economically active people due to retirement, disability, raising children, continuation of educational pursuits, etc.;
- They register at a job centre as unemployed irrespective of the fact whether they are entitled or not to receive unemployment benefits;
- They find full-time, fixed-time, or part-time employment in the sector of the informal or grey economy for the purpose of earning their subsistence;
- Due to the lack of a suitable job, they join the group of the discouraged people;
- They look for a job in other countries (using either official or unofficial channels) and thus leave the national labour market only temporarily or for longer periods of time.

Given the gross arbitrariness of a purely quantitative comparison between the magnitude of outflows draining employment and the magnitude of inflows replenishing unemployment, we cannot help noticing that sometimes the difference between these two flows acquires impressive dimensions. In the conditions of a crisis, this fact enhances **the volatility of the economic environment**. The reason why is the lack of an adequate information backup, which decision-makers need in order to pursue the appropriate policies directed at the stabilisation of the labour market. At any rate, however, what we face is the presence of dynamically developing processes connected with a considerable incidence and frequency of the transitions taking place in the status of the labour force.

In this sense, employment is an important indicator, because it directly relates to **the economic actualisation of the labour force**. This actualisation can take place both in the form of hired labour relations and in the form of work for oneself (self-employment), or in the form of unsalaried work within the limits of the family business. In the conditions of a crisis, what is most frequently observed is the fact that the victims who are hit hardest by the economic slump are hired workers. Small business is not insured against insolvency either, because declining consumption and the diminishing number of orders also affect the numerous small- and micro-businesses.

The responses of threatened businesses can take different directions as far as employment is concerned. Usually employers cut jobs, releasing first the low-skilled workers, auxiliary personnel, and the personnel employed in accompanying activities. In other cases, however, when the difficulties are of a temporary nature and the forecasts are for a gradual improvement of the economic environment, businesses resort to flexible

patterns of employment, such as: part-time work, various forms of personnel rotation and/or job sharing, and thus avoid making their employees redundant.

At a time of crisis, what can also be expected are considerable changes in the **sector-specific distribution of employment**. Industry is the most sensitive sector in this respect. Each crisis-related contraction in the economy affects employment in the industrial and construction sectors, while the service sector as a whole is more indifferent to changes. The dynamic changes in the structure of the economy are logically reflected by the employment rate. With the emergence of new branches and spheres of labour, new jobs are created and vice versa – the economic depression settles first in aging or technologically obsolete industrial branches, which in its turn leads to the dying out of certain professions and a corresponding slump in employment.

Government policy as a growth factor for the employment rate directly relates to the implementation of a number of instruments and levers, providing assistance in the process of training and qualifying the labour force. These instruments also stimulate employers to create new jobs, facilitate the implementation of certain restrictions for hiring unskilled labour, help determine the limit of minimum wages and salaries, etc. An inseparable part of government policy in the area of employment is the elaboration of measures and policies intended to encourage or limit the workforce emigration or immigration processes.

1.4.4 Internal and External Mobility of the Labour Force

Labour force mobility is a natural regulator of all labour markets. It emerges where – for one reason or another – the labour market either suffers from a deficit or is altogether

unbalanced. When the deficit concerns labour demand, the mobility of the free workforce is directed outwards to other labour markets (which can be other local, regional, or foreign labour markets).

Mobility is not motivated by the scarcity of jobs alone. What is very significant is the structure of the jobs on offer, labour remuneration, and the conditions of employment in most general terms. At a time of crisis, however, these additional motives are of a lesser importance, because the labour force is predominantly looking for economic actualisation at all costs and is less concerned about the quality of employment.

In order to develop, **internal mobility** is motivated by specific prerequisites. The emergence of each of its two major forms – daily travel to work and labour migration – is based on a logic of its own, and both are influenced by factors of a different nature. In principle, internal migration is preconditioned by the differences in the economic profile of municipalities, districts, and regions, which broadly means a demand deficit in some of them and a supply deficit in others. However, in cases when the stagnation of labour force demand is omnipresent, irrespective of the differences in the economic profiles, mobility not only fails to grow, but it is also quite possible for it to decline altogether. In addition, the daily travel to work and the distance to the places where work duties are performed are also affected by the situation of the road and transport infrastructure.

The external mobility of the labour force consists of two streams: an outflow and an inflow, which we call emigration and immigration respectively. Both streams contribute to the situation of the national labour market with their upsides and downsides. Their manifestation is rather controversial and also depends on the internal economic environment in the following way:

- emigration can have a positive effect in a situation of a population boom when the economy is incapable of securing the need for sufficient employment and vice versa – it can have an adverse effect when qualified workforce flows out of the country because of the higher level of labour remuneration abroad;
- immigrants of low qualifications can generate social dumping on the national labour market, but the lack of a sufficient number of cadres for certain professions (such as medical doctors, nurses, etc.) can be effectively compensated by the inflow of workforce with the necessary qualifications from abroad.

1.5 Active Employment Policies

The modern labour market is highly regulated. The regulations themselves represent a system deeply integrated within the labour market, which consists of legal norms, principles, rules, requirements, procedures, representative organisations, and intermediary institutions, which help job seekers in the search for jobs or secure the supply of workforce for job vacancies.

1.5.1 Contents of National Employment Policy

The regulation generally concerns activities which take place on **the primary labour market**, which is governed by the traditional form of hired labour industrial relations. In practice, however, outside this market and relatively independently from it, there are two other segments, namely the secondary labour market and the grey (illegal) labour market.

The secondary labour market makes it possible for specific categories of the labour force to find adequate employment, because the job seekers belonging to these specific categories

would find it hard to place and actualise their workforce on the primary market on their own. The reasons why greatly vary and are mainly based upon the following considerations:

- the job seekers lack skills to present themselves and file their job applications;
- the job seekers lack sufficient professional experience;
- the job seekers are at a low educational level and their qualifications are unsatisfactory;
- the job seekers suffer from mental or physical handicaps, which prevent them from functioning as employees under normal conditions, etc.

The secondary labour market is usually identified with the majority of the active labour market policies, which include:

Subsidised employment: This type of employment can be funded entirely at the expense of the government (through its Employment Agency), at the expense of external funding (through EU projects and programmes), or by the implementation of mixed-funding instruments (through the involvement of employers and municipalities), etc.

Specific contractual relations: What most frequently occurs in practice is the conclusion of two contracts of labour: the first one is signed between the government agency (which organises or funds the respective employment policy measure) and the person included in such a measure, while the second one is signed between the government agency and the employer who provides the respective job on the secondary labour market.

Combinations of various regimes: This means that parallel to job-related or other occupational activities, employees can be involved in training courses, internships, rehabilitation, etc. To this end, special regimes of work, rest, working time, social security schemes, etc. are elaborated to serve as regulatory norms for the participants therein.

Limited duration of employment:

Most often, the employment found through the secondary labour market is of a fixed duration. This is the period of time, which is considered sufficient for the employee to amass experience and qualifications which enable him/her to go to the primary labour market autonomously. In other cases this period of time is used by the employee to meet certain criteria and conditions which entitle him/her to leave the group of people making up the labour force altogether.

A different level of protection: In most general terms, the measures applied on the secondary labour market include a fixed level of remuneration for the employed labour force. Quite often, the employees are not covered by a collective bargaining agreement (CBA), but in some of the SEE countries there are specific texts meant for certain categories of such secondary labour market employees in the respective collective bargaining agreements.

The grey (or illegal) labour market is usually qualified as a *quasi market* where traditional rules and regulators fail to function. This market has its own logic of emergence and development, as well as self-preservation mechanisms all of its own. Despite the lack of a legal norm (such as a signed written contract of labour), the relations between the quasi-employer and the quasi-employee acquire the features of monetary consideration for the work done.

The emergence of such a type of relations is based on the desire to obtain certain gains and advantages, such as the evasion of tax payments and social security contributions, which lowers the costs of labour for the quasi-employer and increases (all other conditions being equal) the net disposable income of the hired quasi-employee or quasi-worker.

This is a magical formula, which manages to unite relations of an opposing nature. In the final account, this formula is often quali-

fied as disloyal competition, social dumping, etc. In this way, the illegal labour market generates products and services on one hand, and incomes, on the other, which the national statistics are incapable of encompassing. The larger this labour market is, the more volatile and chaotic the environment for the development of the legal labour markets becomes, and this concerns both the primary and the secondary labour markets.

There are different concepts with respect to the measures necessary to curb the proliferation of the grey labour market practices (because it is virtually impossible to squeeze out this grey market completely in practical terms).

The neutral approach accepts the presence of an illegal labour market as a normal thing and believes that no special measures are necessary for its limitation. Moreover, according to the proponents of this approach, the illegal labour market generates a substantial amount of incomes, without which some people would prove incapable of surviving in the conditions of an economic crisis and a shrinking demand for workforce. In their opinion, even the price of labour on the illegal market matches, to a certain extent, the price trends observed on the official labour market and in this sense the grey market plays the role of its natural competitor. The problems created by the illegal labour market have an impact only on the revenues flowing into the government budget and the social security funds.

The proponents of the measures encouraging the grey labour market to “go out into the light” most often claim that the right approach to the grey economy at large would be to lower both taxation rates and the level of social security contributions, both of which legal labour is obliged to pay. This approach is based on the concept that the evasion of tax payments and social security contributions is connected with “additional costs”. They claim that if taxation and social security

payments were lower, these costs would no longer be advantageous from an economic point of view and employers would rather prefer to go out into the light. In this way, the problems with the budget revenues and the social security contributions would be solved (by increased revenues thereof), and, at the same time, the illegal labour market would shrink to some reasonable and healthy limits.

The liberal approach reflects the striving of certain economists to minimise the implementation of labour market regulatory norms. What these economists actually insist on is for the government to give up the implementation of any regulatory mechanisms altogether. On the other hand, they emphasise on the “harmful impact of the trade unions and the collective bargaining agreements” on the free formation of the price of labour. A typical example to this effect is their claim that the mandatory national minimum wage rates are an obstacle to hiring work force of low skills or qualifications and this is the reason why such job seekers can find a job only in the grey sector of the economy. In other words, the opinion of these economists is that the removal of regulations and the freely negotiated price of labour between individuals would render the existence of illegal labour completely meaningless.

A mix of targeted measures and policies could yield positive results in the combat against the illegal labour market. The efforts made to this respect are usually focused on raising the public awareness and attaining public consensus in all strata of society concerning the issue about the need for manifest intolerance of the illegal labour phenomenon, for the stabilisation of the fiscal and social security systems, which will enhance public confidence in them, for tighter administrative control, for the implementation of rigid sanctions and judicial liability for the grey labour market players, for encouraging social dia-

logue and an increase in the number of quality jobs, which are the best and most obvious proof of the advantages of official employment over illegal jobs.

Therefore, what can be said in summary is that the national employment policy is an aggregate combination of measures, programmes and policies, which are focused on the various segments of the labour market with a view to achieving optimum employment in the country's economy. This is the reason why the implemented measures are of a different nature, such as:

- in most general terms, on the primary labour market they can be characterised as preventive measures, i.e. they protect the employees from sustaining the risk of unemployment;
- on the secondary labour market the priority of these measures is to encourage employment (but in certain cases they contain compulsory overtones as well) as regards the employment opportunities and the employability of unemployed and discouraged persons;
- on the grey labour market the measures are predominantly restrictive, but the genuine curtailment of employment in the grey sector of the economy can be accomplished only by means of a broad variety of instruments and approaches, which have already been described above.

1.5.2 Target Groups of Active Labour Market Measures and Policies

As a priority, active labour market measures and policies are focused on certain groups of the population and the immediate goals they pursue can be summarised in the following guidelines:

- to secure employment by rehabilitating jobs and/or creating new jobs altogether;
- to motivate and encourage redundant and jobless people to start up indepen-

dent economic activity by setting up a business of their own;

- to provide training (or retraining), which makes it possible for employees to receive further qualifications and acquire the necessary competencies for their current job or prospective new jobs;
- to raise the qualitative characteristics of the registered job seekers who are temporarily out of employment through education, training, and intermediation for finding employment;
- to integrate the disadvantaged groups on the labour market, both socially and economically;
- to improve both the labour and living conditions of workers and employees.

The target groups are determined on the basis of an analysis of the relevant social and economic situation, of the demand and supply situation on the labour market, and – last but not least – on the basis of the monitoring and assessment of the effectiveness attained from all measures, programmes, and projects that have been implemented over the preceding period of time. While the active measures in the countries with developed market economies and structurally well balanced labour markets are aggregated and focused on a smaller number of programmes and measures, targeting the respective priority groups, in the South-Eastern European countries, which are still going through the processes of transformation (though the extent of this transformation varies in each individual country), there is a striving for diversification of the active labour market measures and programmes. This fact makes it difficult to clearly define the priority target groups and renders the process of managing and funding the active policies ineffective.

Practice shows that the target groups are formed on the premises of quite a broad seg-

ment of the country's population and this is the reason why they encompass extremely diverse groups, for instance:

- young people who have just completed their secondary education and are on the threshold of their first employment;
- young people who have just completed their university education and are on the threshold of their first employment;
- children in the category of early school leavers;
- illiterate and semi-illiterate unemployed;
- unemployed who have served their term of imprisonment;
- mothers of children below 2 years of age;
- single parents, including parents of adopted children;
- unemployed at a relatively higher age (women over 50 years of age and men over 55 years of age);
- persons without any qualifications and professional experience;
- persons with enduring disabilities;
- part-time employed persons;
- unemployed made redundant as a result of massive job cuts;
- long-time unemployed for more than 1 or 2 years in a row;
- people discouraged from the prospects of finding a job;
- unemployed from the minority groups of the population.

It is impossible to fully enumerate all the diverse target groups, and it is hardly necessary to do so. The above list only illustrates the thesis that the risk (and respectively target) groups in the SEE region are numerous and their problems are unlikely to be solved by merely diversifying the targets and goals of the active labour market and employment policies.

What was observed in Bulgaria in 2008 and 2009, for instance, was a strong diversification of the active market policies programmes and

measures. National funding was secured for 66 programmes and measures in 2008, and the following year their number was 67. During the crisis year of 2010, due to the limited national funding, their number in the National Employment Action Plan dropped to 53 and their focus was on the following target groups:

- unemployed young people below 29 years of age;
- laid-off people or part-time employees because of the shrinking production rates;
- people with disabilities;
- non-active people who are willing to work, including discouraged people.

In such a case, the task of setting up priority target groups can only be solved by making a preliminary assessment of the social impact and the possibilities for selecting and merging people (target groups) that accumulate several risks.

Depending on their scope and coverage, the active labour market measures and policies can be of several types, namely:

National – the target groups subject to active measures and policies are formed on the basis of endangered people who live on the territory of the entire country. These measures and policies are prompted by the fact that the identified problems concerning employment/unemployment have an overall validity on a national scale and they should be funded and managed in a centralised way.

Regional – the target groups subject to active measures and policies are formed in one or more specific regions, districts, or municipalities. These measures and policies are based on a detailed and profound analysis of the social and economic development of the region and the situation of the local labour market. Frequently, the huge regional differences prompt the elaboration of specific programmes intended to solve the specific problems of a given region.

Sector-specific – the target groups subject to active measures and policies are formed on the basis of the people employed in a given sector of the economy and they encompass both the employed and the persons going out of employment in this specific sector. The reasons underlying the elaboration of sector-specific projects can vary, for instance:

- to preserve the employment of the workers in this sector and create conditions for a transition to part-time work due to the financial difficulties the employer is experiencing;
- to undertake follow-up measures for re-training at times of massive lay-offs;
- to carry out the technological renewal of certain manufacturing facilities, which need parallel or advance training of the respective personnel;
- to respond to the emergence of new industrial branches and innovative manufacturing facilities, which require adequate measures for the preparation for the newly emerging jobs and the respective personnel training they require.

1.5.3 Sources of Funding the Active Labour Market Measures

In most general terms, the possible sources of funding can be defined as internal (national) and external (international programmes and European funds). Depending on the stage of the countries' EU accession process or their actual EU membership, the correlation between the different sources varies. From a structural point of view, a significant role is also played by the situation of the government finances in each individual SEE state and by its readiness to appropriate resources extended by the European funds.

National funding from the government budget is the major source of funding implemented in the countries of the SEE region. The

National Employment Action Plans include precisely such measures and programmes, which, in the majority of cases, have been planned to rely on funds from the **government budget**. Depending on the country's legislation, national funding is effected – either in full or only partially (for certain measures and programmes) – through specialised **social security funds**. Hypothetically, this form of funding seems to be more reliable, as it directly depends on budget revenues, but in practice additional problems could arise in connection with it, such as the low collection rate of social security contributions and the avalanche-like growth of the needs requiring funding, especially at a time of crisis.

Budget deficits make governments resort to unpopular measures in order to curb the national funding of employment policies. At the same time, the growth of the unemployment rate requires additional resources in order to finance both the active and passive labour market policies. Given the diminishing resources available to the government budget, what has increasingly been gaining importance in the efforts to overcome the current crisis is the most effective utilisation possible of the resources extended by international programmes and European funds. On the other hand, however, there are two major risks connected with the option to resort to **external funding**, namely:

First, the highly restricted government budget funds can hardly be compensated by external funding only, because some of the specific labour market measures do not meet the conditions and requirements for funding through European programmes and funds.

Second, it is far from certain that the resources planned to be extended by the European funds and programmes will be fully appropriated, because the readiness and capacity for an effective administration of such programmes are still at quite a low level in the countries of South-Eastern Europe.

The principal question which arises in connection with the funding of the various active labour market policies concerns the results obtained from them, i.e. this is the essential issue about the extent of their effectiveness.

1.5.4 Evaluating the Effectiveness of the Implemented Labour Market Measures and Programmes

The effectiveness attained in the process of implementing the active labour market policies can be regarded and studied methodologically from various points of view, namely:

- One of the possible approaches studies the costs/benefits ratio, whereby of particular significance are not so much the quantitative indicators of a short-term effect (such as the number of people trained, the number of months they have been in permanent employment, etc.), but rather the indicators of a predominantly qualitative nature (such as the knowledge and skills acquired by the trained beneficiaries and subsequently used in their actual employment, and the duration of their long-term employment corresponding to the educational degree and qualification level of these same beneficiaries, etc.).
- Another approach, which can be qualified as an innovative one, concerns the process of establishment and measurement of the net effect obtained from the various employment-oriented services. The time lag duration of this approach is of over two years and its essence consists in the fact that the transitions and the employment status of the unemployed who have been registered at the job centres in the country during a given base period of time can be established by means of filling in a respective questionnaire. This method achieves two goals simultaneously, i.e. it establishes the effect of the employment-oriented

services offered to the beneficiaries and, at the same time, it establishes the effect of the transitions from traditional programmes and measures to novel policies for the encouragement and activation of the unemployed by means of applying an individual approach to each of them.

- Yet another approach studies the degree of compliance between the supply of specific employment-oriented services and the demand for such services on the part of the various actors on the labour market. What also plays a role here is both subjective factors and factors connected with the relevant social and economic situation.
- Another research tool is the tests concerning the support for these measures. These are another source of interesting information about the usefulness of the active labour market policies, which makes it possible for a deeper analysis to be carried out on their compliance with the existing needs. These tests also make it possible for adequate solutions to be properly formulated as regards the improvement of the active labour market instruments and policies which have been implemented thus far.
- The effectiveness obtained from the implementation of the active labour market policies can also be assessed, depending on the cumulative effect attained for the individual, the family, the business and/or the employer, as well as for society in general. The study of the cumulative effect, however, is a task hard to fulfil in the absence of all the necessary information, which must be included in the research model in advance.

The indicators concerning the effect and efficiency of appropriating the funds obtained from external funding are usually genuinely assessed and reported only after the schemes in question have been fully implemented and completed. It should be emphasised that

some of these schemes have been conceived and implemented on the premises that they should expand certain national programmes and further build upon them.

In the conditions of an ongoing economic crisis and a limited capacity for funding anti-crisis measures and active market policies through allocations from the government budget, this approach of “further building on existing programmes” by means of redirecting their funding to external sources is assessed as correct, appropriate, and extremely useful. What is also valuable about this approach in such an economic situation is that its complementary function can be accomplished through the combination of various instruments and measures, which thus makes it possible to overcome certain weaknesses and defects of already well-tried and tested national programmes.

1.6 Passive Labour Market Policies

The purpose and intention of the passive labour market policies (PLMP) is to provide a certain level of protection at a time when the risk of unemployment actually occurs. These passive policies involve the disbursement of certain amounts of money, which are meant to cover the cost of living of those affected by such a risk. In this way, the passive labour market policies are focused on the need to mitigate the effects and consequences from the unfavourable change in the status of the labour force, namely the transition from employment to unemployment.

1.6.1 Major Elements of Passive Labour Market Policies

The passive labour market policies (PLMP) are strictly regulated and enshrined in the national labour and social security legislation. The instruments for the implementation of the passive labour market policies are unemployment

severance payments and unemployment benefits. Access to these is given to entitled people who meet certain requirements and have been paying their social security contributions prior to the occurrence of the unemployment risk. Unemployment severance is a payment closely bound with the level of the social security income and represents a certain percentage of this income, whereas unemployment benefits stand at a lesser amount and their monthly disbursement is meant to secure a certain minimum of means covering the subsistence and indispensable costs of living of the jobless people. The latter amount is usually either a percentage of the minimum salary or wage for the country, or is linked to the poverty line, i.e. it is actually an element of the social welfare and support system.

A special fund has been set up with the purpose of financing the passive labour market policies and measures. It raises its funds from social security contributions, from targeted subsidies extended by the government budget, from fines collected for infringements of the Labour Code, and from various other targeted donations. The social security contributions are divided between the socially insured employee and the employer at a certain ratio. This means that only socially insured persons are protected against the risk of unemployment and it is they alone that have the guarantee of receiving unemployment benefits. In other words, employers, the self-employed, free-lancers, and unsalaried family business workers are excluded from those eligible to receive unemployment benefits.

The social security contributions paid against the risk of unemployment can be both mandatory and voluntary.

Mandatory social security is a system which raises funds with the purpose of providing a guarantee for the socially insured persons, which entitles them to avail themselves of employment services, professional training, and

monetary compensations. The principles of the mandatory social security system are as follows:

- participation of all employers and legal employees, i.e. persons hired to work on the basis of registered labour contracts;
- solidarity among all socially insured persons with respect to both access to the resources raised by the social security funds and the use of the respective unemployment services and benefits;
- participation of the government, the socially insured persons, and the insurers in the management and control of the funds raised by the system.

Voluntary social security is an additional pillar in certain social security systems which guarantee access to more numerous and/or higher quality services, including a higher level of additional unemployment severance payments and unemployment benefits than the level provided for by the law.

1.6.2 Unemployment Severance Payment – Characteristic Features and Principles

There is a considerable difference in the eligibility to avail oneself of the active labour market policies (ALMP) and the passive labour market policies (PLMP). Thus, for instance, people who are registered as unemployed and who have never been in employment before, as well as people who do not meet the requirements for the duration of the period in which they have been obliged to pay social security contributions, cannot avail themselves of the right to receive unemployment severance payments and unemployment benefits, but they are nonetheless entitled to access and participation in various measures and programmes intended for the unemployed.

The unemployment severance payment is the major instrument of the passive labour market policies. The access and entitlement

to this type of PLMP is linked to the obligation of meeting certain **criteria and requirements**. These are usually:

- completed length of service, i.e. mandatory years of occupational tenure;
- uninterrupted payment of social security contributions over a fixed period of time;
- terminated (or severed/broken) industrial relations.

The most important characteristic features of the unemployment severance payment are:

- the amount of the unemployment severance payment; and
- the length of its disbursement.

Most frequently, the amount of the unemployment severance payment is linked to the amount paid for the social security contributions, i.e. it is closely connected with the social security income. The unemployment severance payment usually stands at a certain percentage (about 60 percent, for instance) of the social security income prior to the occurrence of the unemployment risk. In practice, however, with a view to pursuing a certain type of policy, the legislators can sometimes fix both an upper and lower limit of this percentage. From the point of view of the basic social security principle, which says that the amount of the unemployment severance payments should depend on the social security contribution of each of the socially insured persons, the most appropriate and acceptable solution is to set the severance payments at a certain ratio valid for all beneficiaries. The advantages of such a solution are as follows:

- First, it encourages all of those employed to pay up the full amounts of their social security contributions, and
- Second, such a solution provides for fair and just compensation of the employees upon the occurrence of the unemployment risk.

The issue about the ways in which optimum security and protection of the unemployed can be attained is extremely complicated and quite often the effects achieved are contested by one or the other party to these industrial relations. Depending on the specific situation of the labour market, various options can be considered, weighed up, and implemented by taking into account the amount of the unemployment severance payment and the duration of its actual disbursement.

The arguments usually pointed out for selecting one or another policy option are based on three underlying premises:

- the unemployed should be adequately protected from the point of view of the risk of their sinking below the poverty line;
- the unemployed should be adequately compensated;
- each unemployed person should be stimulated, encouraged, or forced to actively seek and start a new job.

These arguments diverge in different directions and the chance of combining them seems remote or utterly impossible. What is also important for the unemployed in practice is the level of the minimum salary or wage, the structure of the jobs on offer, and hence – their readiness to take up a new job. In other words, to find an optimum solution, as far as the passive labour market policies are concerned, is as important as the pursuance of appropriate active labour market policies.

1.6.3 Opportunities for Combining Instruments of the Active and Passive Labour Market Policies

The passive labour market policies, on one hand, and the active labour market policies, on the other, represent relatively autonomous systems, the financial management of which is most frequently separate. What has been

observed over the past several years, however, under the impact of the economic crisis as well, is an attempt to implement measures focused on combining the passive and active labour market policies in a better way. This has been done with the purpose of prevention, and a higher level of security and protection of the unemployed for longer periods of time.

Such is the focus, for instance, of several measures and programmes which increase the duration of disbursing the unemployment severance payments to people who have enrolled themselves in educational, training, and re-training programmes and courses. The condition for granting access to a prolonged period of unemployment severance disbursements to the trainees is that they should be actively seeking their labour actualisation on a new job and should be making genuine efforts to upgrade their training and education.

There is another combination of successive measures, which achieve the so-called “**cascade-mode employment protection**”. Its application becomes imperative when enterprises experience financial difficulties prompted by the shrinking volume of output and the slow-down of finished product sales. In cases like these, some amendments to the labour and social security legislation can additionally raise the reliability of the existing or additionally introduced active labour market measures. The succession of their implementation imitates a staircase-like image, hence the specific name – a “cascade mode of employment protection”. This cascading mode of implementation may look in the following way:

- implementation of reduced working time in the form of flexible part-time work in compliance with the current national legislation;
- subsequent inclusion of such enterprises in programmes or measures for subsidised reduced working time;
- training and re-training programmes are superimposed on the flexible working

time reduction, coupled with scholarships for the trainees;

- granting economically substantiated leave from work to the employees in compliance with the current national legislation;
- granting the right to unemployment severance payment on the basis of the length of service and the social security income during the time of reduced working time periods.

The “cascade-mode employment protection” achieves several effects, namely:

- (a) the time between employment and unemployment is extended;
- (b) it is possible for the economic environment to improve during the period of implementing the “cascade-mode employment protection”, i.e. what is observed is the prevention of the risk of unemployment;
- (c) various sources of funding have thus been combined;
- (d) the security of the transition period from employment to unemployment has been increased;
- (e) the quality of the labour force has been improved as a result of the implementation of certain active labour market policies (such as training and retraining, for instance).

What should be pointed out in this connection, however, is that these positive changes are taking place in an insecure fiscal environment. In conditions of economic growth and a low unemployment rate, the level of social security contributions is usually more than sufficient and the unemployment severance fund closes the fiscal year with a surplus. But the problems with the disbursement of unemployment severance payments proliferate at an avalanche-like rate in conditions of an economic crisis, when the unemployment rate rapidly rises, and the number of socially insured people sharply drops. The question which this situation raises is as follows: How can we materialise the commendable

good intentions for increasing employee security against unemployment and combine active and passive labour market policies in the conditions of an unstable fiscal environment? One of the possible solutions certainly is to prevent any decrease in the level of the social security contributions, and the other is to redirect the active labour market measures to foreign funding (by means of European programmes).

1.7. Horizontal Principles of Employment Policies

1.7.1 Social Dialogue and Partnership

Social partnership, social dialogue, and the more comprehensive inclusion of workers/employees are notions which are not only key elements of the European social model, but also a major factor of production capable of impacting and accelerating the rate of innovations and reforms in compliance with the objectives which each of the member states has set to achieve. In the area of employment, the countries from South-Eastern Europe need clearer, more transparent, and balanced economic and social policies pursued jointly with the participation of both the social partners and civil society as a whole. The serious challenge they face in this connection is the simultaneous development of social and civil dialogue.

If the sphere of social dialogue has marked significant achievements, both with respect to the institutional framework and the establishment of mechanisms and procedures, despite the insufficient effectiveness and the superficial dialogue at times, the civil dialogue can be said to be strongly deficient. In the prevailing number of countries in the region, a respective National Economic and Social Council has not yet been set up and it is namely this Council that is vested with a huge potential as far as both social and civil dialogue is concerned. Even in countries where such Coun-

cils do exist, in the majority of cases they are functioning below their full capacity and, as a rule, merely duplicate the official tri-partite bodies, instead of expanding the opportunities for inclusion of the other structures of civil society in the social dialogue.

In the sphere of social dialogue on a national level, the employment action plans should be drafted and adopted with the broad participation of employee and worker organisations, on one hand, and employer organisations, on the other. The social partners have the opportunity to deliberate on possible amendments to the policies and programmes, to make decisions concerning the redistribution of funds among the various programmes and measures, and to table motions with respect to the launch of novel projects. These bodies – usually tri-partite employment councils – also elaborate the strategic documents of each individual country in the area of employment. Practice shows that in the short-term and medium-term perspective the efforts of the social partners in the different countries aim at the conclusion of Agreements or Pacts for economic and social development, economic growth, and employment, or some other similar objectives.

Tri-partite cooperation is transferred as a rule to the regional level as well, where similar councils or commissions concerned with the various issues of employment and unemployment are now functioning. Their importance is extremely high, because the specific policies and problems of the region can actually be solved precisely at this level. The regionalisation of employment policies is conducive to overcoming the practice of imposing and legitimising governmental policies only, and to shifting the focus instead onto the endorsement of systems which take into account the opinions and interests of the local communities affected by the various labour market policies.

The social partners are facing a number of challenges in connection with their integra-

tion into the European social dialogue and the different forms of existing partnerships. To a different extent they have also been affected by the regimes restricting the free movement of labour force coming from the SEE countries with the purpose of finding employment on the single European labour market.

On the one hand, the social partners of the SEE countries must prove capable of defending the interests of hired labour and the competitiveness of their own enterprises in the process of adapting their economies to the requirements of the single European market by ensuring both a balance of flexibility and security and a balance between the interests of labour and capital. On the other hand, the SEE social partners must meet the challenges facing their own structures, mechanisms, instruments, and effectiveness, alongside the challenges facing their capacity for representation, their elected office, and their capability to take part in the social dialogue on the national and European level.

It is in this sense that the challenges facing the countries in the SEE region bear certain national traits and shades, but what it takes to overcome them is both their own internal endeavours and the joint actions within the entire community. The open method of co-ordination underlies the recourse to precisely such a single system for identification, impact, and monitoring of all the labour market and social security problems and challenges, which arise in the individual countries of the region.

1.7.2 Equal Opportunities and Treatment

The policy of equal opportunities and treatment is one of the most strictly implemented horizontal policies, which has found its genuine application in the sphere of employment. Its anti-discriminatory nature means that the entire combination of measures and pro-

grammes is intended to promote equal conditions and access to employment for all categories and strata of the population, instead of restricting entitlement and access, or even further deepening the existing inequalities.

The anti-discriminatory European directives have to be transposed in the national legislation of all countries in the region, which – for its part – should be able to guarantee:

- equal rights and treatment throughout the process of applying for a job;
- equal rights to access to the educational and qualifications services, with the purpose of improving the quality of the labour force;
- equal conditions of work and remuneration; and
- universal compensatory mechanisms and instruments conducive to increased security during the transitions in the employment status.

By pinpointing one target group or another eligible for social and welfare support and inclusion in the various labour market measures and programmes, the active policies should rather focus on compensating and equalising the existing objective differences, instead of creating advantages or new inequalities. In principle, this holds true of all possible discriminatory cross-sections concerning gender, age, ethnicity, etc.

1.7.3 Flexible Security (Flexicurity)

“Flexible security” (or “flexicurity” for short), as a term which, in principle, combines two opposing labour market policies, has acquired wide popularity of late not only in old Europe, but in its new member states as well. In the majority of these newly acceded countries, however, this concept remains unsupported by consistent and adequate actions on the part of the governments. On the one hand, this is due to the deliberately wrong interpre-

tation of this notion on the part of the employers and liberally-minded circles, which gives rise only to the striving to limit the duration of labour contracts and win facilitated procedures for cutting jobs. On the other hand, we should emphasise that the governments failed to find the appropriate ways of combining the two policies, namely those of flexibility and security. Moreover, coercion has been increased, social security has been diminished, and the guarantees granted by the government have been shrinking, and are increasingly giving way to purely market instruments. The following phenomena are an indicative testimony to these facts:

- the expanding grey sector of the economy, which plays the role of a natural defence reaction to the increasing insecurity on the primary labour market;
- the low level of social protection and security of the existing transitional labour markets and the very transitions in the employment status;
- inadequate and partial reforms in the two most important social sectors from the public point of view (i.e. education and healthcare), which have been characterised by increasingly difficult access for quite some time now;
- the restrictive policy in the area of social welfare support and unemployment benefits;
- the on-going low effectiveness of training and retraining courses, as a result of which the unemployed fail to find adequate labour self-actualisation in the majority of cases.

The Communication of the European Commission from 27 June 2007, entitled “Towards Common Principles of Flexicurity” (*Towards common principles of flexicurity: More and better jobs through flexibility and security*)¹,

¹ http://ec.europa.eu/employment_social/news/2007/jun/flexicurity_en.pdf

contains actions and tasks related to the **four major components of flexibility and security**, which have been included in it, namely:

- ***Flexible contractual arrangements***, both with respect to employers and employed, provided by modern labour legislation, better work organisation, responsible collective bargaining agreements, and information sharing and consultations with workers and employees;
- ***Active labour market policy***, capable of effectively helping people cope with the rapid changes taking place on the labour market, and more specifically with unemployment and the transitions from one job to another;
- ***Stable and comprehensive life-long learning strategies, which meet the needs of job seekers*** and contribute to the continual adaptability and employability of workers;

- ***A modern social security system***, which provides adequate income support, encourages employment, and facilitates labour mobility. This includes a wide range of regulations concerning social protection (i.e. unemployment benefits, pensions and health-care) and helps people to combine work with their private and family responsibilities.

Based on these four elements, each country had to elaborate a “**national path**” of its own, which ensures flexibility and security on its labour market. Precisely this path had to become the instrument for establishing a new balance between flexibility and security, both in terms of the individual members of the labour force and the various business entities, within the context of the new cycle of Guidelines for Inclusive Growth and Employment in the EU throughout the period of 2008-2010. The time has come for the first results from the implementation of the flexibility and security measures laid down in the “national paths” to be officially reported now, in the current year of 2012.

2. Perspectives from South East Europe

2.1 The Albanian Case in the Situation of Labour Relations, Employment Policies and Perspectives

Ledio Milkani

Abstract

The Republic of Albania is situated in the South East region of Europe, in the South-West of the Balkan Peninsula, along the Adriatic and the Ionian Seas. The territory of Albania is 28,748 square km and its population is 3,170,048. The population growth is negative and the main factors for this decrease are migration, which is relatively high, and the continuous decrease in the number of births.

The communist regime collapsed in 1990 and the Republic of Albania was founded in 1991. The Albanian Republic is a parliamentary democracy established under a constitution renewed in 1998. The administrative division of the country consists of 12 prefectures, 36 districts and 374 communes/municipalities.

Albania is a largely ethnically homogeneous country with only small minorities. The large majority of the population is ethnically Albanian. The exact size of ethnic minorities is not known, as the last census that contained ethnographic data was held in 1989. Minorities include Greeks, Vlachs, Macedonians, Serbs, Bulgarians, Balkan Egyptians, and Roma.

The transition from a centralised economy to a free one has proven challenging, as successive governments have tried to deal with high unemployment, widespread corruption, a decaying physical infrastructure, and widespread social problems, especially in rural areas. Although Albania's economy continues to grow, the country is still one of the poorest in Europe, hampered by a large informal economy and an inadequate energy and transportation infrastructure. The most recent EU progress report on Albania indicates that there has been little progress in the field of social policies. Poverty is 66% higher in rural areas than in Tirana and 50% higher in rural areas than in other major urban centres. Internal migration results from massive internal disparities: between 2005 and 2006 alone the population of Tirana increased by 137,000.

Albania is now a member of the United Nations, NATO, the Organisation for Security and Co-operation in Europe, Council of Europe, the World Trade Organisation, the Organisation of the Islamic Conference and one of the founding members of the Union for the Mediterranean. Albania has been a potential candidate for accession to the European Union since January 2003, and it formally applied for EU membership on 28 April 2009.

2.1.1 Labour Market Situation

2.1.1.1 Employment Rates

The employment state policies shall continue to encompass measures for encouraging em-

ployment (active policies) as well as ensuring the support through income (passive policies).

The development of the labour market and encouragement of employment constitute one of the main components of the state policies for raising the level of employ-

ment and consequently reducing poverty. The National Strategy of Employment and Professional Training has set out concrete and realistic objectives for the development of the labour market, improvement of the quality of the employment services, applying contemporary standards and orientation and involving the job-seekers on the labour market.

The official unemployment rate for 2009 was 142,275 people, or 12.9% of the work force. 71,935 of them were females, 92,126 were long-term unemployed persons, 88,585 benefited from economic assistance, 9,832 benefited from unemployment allowance and 8,921 from specific groups.

- 10,993 people have been found employment, 44% of whom are females and 33% are young persons below 25 years of age. 8,565 people have been found employment with the facilitation of the employment offices during 2009.
- 2,836 have been employed by the action plan.
- 4,384 persons have been employed through the economic development programme;
- Following completion of a training course, 679 persons have been employed;
- 517 of the persons benefiting from unemployment allowance have currently been employed.

Employment encouragement programmes were applied even during 2009, when the fund for the employment encouraging was 200 million ALL. Programmes for encouraging the employment of female unemployed job-seekers are applied. The employers supported by this programme have been receiving 75% of the mandatory social insurance and 4 minimal monthly salaries in the first year. In the second year they have received 85% of the mandatory social insurances and 6 mandatory salaries, while in the third year

they have received 100% of the mandatory social insurances and 4 salaries. The fund for 2010 for the programme is 26 million ALL and there were 407 female participants.

The programme for encouraging employment, through training on the job, was one of the different programmes of employment promotion. An employer organising general training for qualification purposes, utilising the performance of unemployed jobseekers, may receive financing from the respective employment offices, to the extent of a) 70% of the training costs for small and medium-sized enterprises; b) 50% of the training cost for large enterprises. The duration of the training programme should be no longer than 6 months for all professions. 1,234 unemployed jobseekers were trained, financed by a fund of 117 million ALL.

A programme for encouraging employment for the needy unemployed jobseekers is in line with the Council of Ministers' Decision No. 48, dated 16/01/2008, as amended. An employer who employs on a one-year contract needy unemployed jobseekers may receive:

- a) Financial support for one year, to the extent of 100% of the mandatory social insurances for the part of employer;
- b) Financial support for four months, to the extent of 100% of the minimal salary countrywide, starting from the ninth month, over the entire year of the contract performance;
- c) Up to 50% of the average number of the insured persons of the last 3 months prior to the application. In this programme 347 unemployed jobseekers have been employed, with a fund of 28 million ALL.

A professional internships programme for unemployed jobseekers with high school education, in the country or abroad (in line with the Council of Ministers' Decision No. 873, dated 27/12/2006). Public employers were obliged to

admit these jobseekers free of charge onto their premises, proportional to the administration staff, according to the ratio: one practitioner for every 50 persons of personnel. Private employers admitting onto their premises jobseekers from the respective employment offices should receive to the extent of 100% of the basic salary of unemployment payment (6,340 ALL per month), for each practising month of the jobseeker. In 2009, this programme completed the professional internship for 354 unemployed jobseekers, who were students with higher education.

2.1.1.2 Unemployment Rates

At the end of 2006 there were around 150 thousand, or 13.8%, registered unemployed. The unemployed who were part of the unemployment payment scheme were around 10 thousand. The number of people registered as unemployed at the end of 2005 was 153 thousand. The fall in employment was 0.3% between 2005 and 2006. This fall was due to an increase in the number of mediations.

The unemployment level was higher for females than males during the transition period. The difference in the scale of unemployment between females and males was more noticeable in urban areas than rural areas.

The unemployment level is higher in the north-east part of the country. This area was not able to recuperate the lost economical activities after the 90s. The business people were attracted by the cities more than areas around them. According to government statistical data in 2006 unemployment was 24.6% in the North, 13.3% in Central areas and 13.5% in the South.

Unemployment according to education level shows that 54.6% have finished elementary education (up to 8th grade – the system has been changed to up to 9 grades after 2010), 43.6% have finished high school, and only 1.8% have a university degree. At the end of 2009 144,766 were registered as unemployed.

If we analyse the entrance and exit from the unemployment scheme, we will see that there are unemployed without any profession at all, who compose 32% of the total number, unemployed as workers without any special skills, who compose 47%, and only 18% of the number of registered unemployed have middle skills in fields such as the clothes industry, building and carpentry. The unemployed with a university degree compose 3% of all those registered.

2.1.1.3 Sectoral Changes

Employment offices notify their employment offers. Usually employers are seeking simple workers without any special qualifications. This fact is related to the fact that the majority of registered jobseekers have no special qualification or special skills. This fact is well known, so employers ask for such workers at public employment offices.

The requests for highly trained specialists are made usually for economists (18%) and school teachers (25%), middle experts and technicians for the clothes industry (53%), building workers for the building industry (25%), and specialists for the processing industry (47%). There has also been an increase in offers in the technology and communication sector, (mostly in call centre services) the health sector, and the handicraft sector, such as textiles, wood, paper, etc. It has been noticed that during 2010 there was an increase of 4% in the requests for specialists with higher education, and 2% for university education compared with the previous year. Public employment offices have offered 30-40% new jobs which are different according to the regions. The rest were offered replacements of existing jobs or seasonal work, in the field of tourism, the food processing industry or the building industry. The new job offers were mostly in new private telecommunica-

tion companies, (mobile companies, especially in Tirana), telemarketing companies and the mineral extracting industry. The replacements were related with the processing industry, where there was an exchange of staff continuously from one enterprise to the other. Seasonal offers were related with the building industry, the food processing industry and tourism. During 2009 public employment offices included in the unemployment payment scheme around 10,000 unemployed people, 71% of whom had come from the private sector, with 29% from the public sector. Unemployment from the private sector was related with the consequences of the global financial crisis. For example in Shkodra entry into the public unemployment payment scheme for the first half of 2009 was 48%, mostly from the clothes industry. In the second period of 2009 there was also an increase in entry into the public unemployment payment scheme, which came as a result of privatisations of ARMO and ALBPETROL (state shareholding oil companies). The entry from the public sector came mostly from the education sector, the energy sector KESH (Albanian Energy Company, a state-owned company, which has sold one of three parts: the distribution part. Actually the other two are state owned), and the health sector. Regarding employment during 2009, it has been noticed that 6.5% of the total number of profitable from the public unemployment payment scheme have been employed. The employment has come as a result of the mediation process, employment promotion programmes and return to places of old jobs. If we refer to the different sectors, we will notice that the public sector continues to have a fall in employment. This fall appeared as an output of the privatisation or restructuring of some different parts of the public system. The private non-agricultural sector had the biggest increase during 2009 and 2010. The increase was noticed in small

and medium enterprises, founded as juridical persons. The companies, called "one person owned or physical persons", have almost the same number of employees. The distribution of the offers according to activities compared with 2009 had a small difference. The difference was in accordance with employment differences according to different sectors of the economy. An increase in offers in the transport sector, the telecommunication sector and the service sector was noticeable. It was noticed that there was a fall in offers in the building sector. Big companies called "VIP companies" show an increase in home-made production. Companies in the trade sector have reduced their number and big companies have changed their shape to small and medium, reducing their number of employees. In the service industry big companies have increased their number of employees, but small companies have gone bankrupt.

2.1.1.4 Adjustment Patterns

Legislation to promote employment programmes has stipulated different types of employment, supported by governmental funds. These programmes were implemented during 2007 and they lasted three years.

Special training through work is one of the programmes most applied by employers. 57 programmes have been implemented, in which 1,182 jobseekers have participated. The programmes have been focused on different types of professions, such as cooking, carpentry, iron handicraft, tailoring, etc. The participants were from different unemployment supported groups. 87% were from public unemployment scheme payment. Among them there were young and people over 35 years of age, and 52% were females.

Another programme has been employment with subvention for unemployed jobseekers in difficulty. 35 programmes have been imple-

mented. The employed jobseekers were simple and unqualified workers. From the total number of 331 employed people, 26% were from the gypsy community, and 45% were females.

The promotion of employment for unemployed females was another programme. 407 females participated in the 12 implemented programmes and they participated in the processing industry. The age of unemployed females who participated was under 35 years.

2.1.1.5 Gender Topics Gender Equality

Enhancing the governmental mechanisms at central and local level, with a view to implementing and monitoring the strategy, brought about the setting up of, and initiated the functioning of, the National Council of Gender Equality (NCGE).

Order No. 3, dated 08/01/2009, outlined the need to establish the National Council for Gender Equality, determining there also the way of functioning as an advisory authority for the management, determination and development of policies on gender equality in the society. The Technical Secretariat for Monitoring the National Strategy for Gender Equality was established.

According to the Joint Plan of the Programme "One UNO" "On gender equality in Albania", the function of the Technical Secretariat of Monitoring the Strategy was assumed by the coordinators. For the setting up of this Secretariat, changes in the Ministry of Labour were required. Approval of law No. 9970, dated 24/07/2008 "On gender equality" also imposed the institutional obligation on appointing employees by gender along ministry lines and local employees for gender issues. Currently, efforts are focusing on institutionalising this grid with the Municipalities of the country.

Capacities should be established at gender related contact points at local level, and local employees for gender issues (wherever appointed).

Enhancing the capacities of the contact point for gender related issues at local level was supported by the Project of the Austrian Government "Equality in governance" through training over gender affiliation issues. In 2009 the training was conducted at basic level with representatives of the local government in 38 municipalities of the country, whereby 672 persons were trained.

Training focused on violence has been carried out in the context of the Joint programme: "One UNO" on issues of violence in Albania. The Ministry of Labour, in cooperation with PNUD, have provided training about filling in the bylaw framework of law No. 9970: dated 24.07.2008 "On gender equality in society". Referring to the obligations stemming from law No. 9970: dated 24.07.2008: "On gender equality in society", a package of acts was drafted and approved in 2009 pertaining to the establishment and functioning of the National Council of Gender Equality.

There have been proposals from the Gender Directorate in the Ministry of Labour for incorporating the elements of gender equality into the framework of the process of revision of the Labour Code.

The work group in the Ministry of Labour for the revision of the Labour Code has taken account of them and has considered incorporating provisions on parental leave (birth leave for fathers), while the leave of 35 days prior to birth was not taken into account, since the protection is complete; other proposals were made on the flexible hours for the employees, assuming family responsibilities and sexual harassment at the work place.

Other proposals were made to the draft law: "On safety and health at work" in connection with vulnerable groups encompassing herewith special protection for pregnant women, women who have recently given birth and breast-feeding mothers in compliance with Directive No. 92/85CE.

Boosted public opinion awareness over gender-related issues and domestic violence and enhancing inter-institutional cooperation with the civil society and all the stakeholders, with regard to the integration of gender-related issues into all the governmental policies of all levels, was of great importance.

Awareness Campaigns “Rights of women are human rights” in connection with national and international legislation have been launched. Different publications have been published on gender equality, such as explanatory handbooks, training handbooks on Gender Equal Legislation, and Periodic bulletins in Albanian-English “On an equal society without violence”.

Enhancing the governmental mechanisms at central and local level has been carried out, with a view to implementing and monitoring the strategy.

Setting up and Initiating the Functioning of the National Council of Gender Equality (NCGE) has been done.

By order No. 3, dated 08/01/2009, the establishment of the National Council of Gender Equality, determining there also the way of functioning as an advisory authority for the management, determination and development of policies on gender equality in society, was ensured.

2.1.1.6 Demographic Topics

Unemployment level according to the Ministry of Labour database of 2006 was higher in the North – East part of Albania. The situation was related with the fact that the area represented difficulties for economical activities after the 90'. The area was not able to offer potential possibilities for the local businesses to invest and develop their investments. The infrastructure of the area was poor and there was a lack of movement of the habitants in the neighbor countries such as the south

and center part of the country. There were no chances to invest and develop in that difficult area. During that time was noticed the tendencies of the businesses to invest near the big urban developed areas. They moved their investments near these areas because there they found much more possibilities to be successful and as the result of that the unemployment was around 24% in the North, and around 13,3 % in the center and 13,5% in the South. There are not found any more official database or information after 2006, regarding the demographic employment or unemployment topics.

2.1.1.7 Youth Unemployment

The Labour force survey for 2007-2008 shows that the unemployment rate for young people between 15-24 years was 27.2 %. The unemployment scale reported among young people and adults of 25-64 years of age is 2.5. The percentage of youth unemployment compared to the total number is 27.8%. These figures show that young people are facing a lot of difficulties finding a job on the labour market. The chances of a young person finding a job are 2.5 times reduced, compared with those of an adult. If we compare the difference in employment between young people and adults it is a big difference, which shows that the creation of new jobs for youth it is lower than it is for adults.

2.1.2. Employment Policies and Labour Market Institutions

2.1.2.1 Fiscal and Tax Policy

The tax policy in the upcoming years shall continue to be led by the priorities and strategic objectives spelled out in the strategy of Public Finances 2007 – 2013. Governmental policies have, in recent years, concentrated on establishing an encouraging climate of investments,

simplifying the taxation system and the regulatory and administrative framework for doing business (registration, licensing, e-taxes, etc.) and lowering the tax burden on business income. For 2010 and thereafter, there were two issues of particular importance:

Considering the context of the economic developments in the country, referring to the macroeconomic situation in 2009 and fiscal risks for the medium-term period, ensuring sufficient budget revenues was crucial (an essential share of which are taxation revenues), to finance public expenditures and preserve the macro-economic stability. Given that the announced government policy was that of not increasing taxes (with the exemption of excise taxes), the key factors for reaching the objective in question are the broadening of the taxable base and the element of (taxation and customs) administration. The extension of the taxation base was an element of positive effects in many directions: growing competitiveness in the economy, increasing revenues without increasing taxation rates, and lowering the tax load for individuals and businesses. Referring to the progress in the integration process, another objective of crucial importance (which was also contained in the Strategy of Public Finances) was the approximation of the taxation legislation, with regard to direct and indirect taxation, to the community legislation. Specifically, an important reference for drafting the tax policies was the code of Conduct for Business Taxation for the future and the current rules. The latter are subject to analysis with regard to their compliance with the Code of Conduct.

As is also highlighted in the reports of international organisations, Albania has made meaningful progress in terms of boosting the capacities for development and application of taxation policies. The quality of forecast of revenues was essential for having better management of public finances. It was also impor-

tant to possess the techniques and models allowing the analysis of effects on the revenues with different taxation systems, calculation of losses in revenues stemming from different alleviation schemes or taxation exemption, study of distorting effects of certain taxation policies on employment, etc. These were issues that have been established under the focus of the senior employees of the Ministry of Finance, as the main drafting and proposing institution for the policies in the field of public finances, with effects expected in upcoming years.

With regard to the administration of revenues, the policies aimed at strengthening the strategic tax and customs management, encouraging voluntary clearance of obligations by taxpayers by boosting the reliability of both administrations and promotion of a service culture within them, modernising the customs and taxation service.

2.1.2.2 Short Term Tax Policy

Since 1 January 2010, the VAT threshold has been lowered from 61,069 Euro to 38,168 Euros. The aim of this policy of lowering the threshold was to bring it into line with the practices of the other countries, as well as for formalising the billing of large and small businesses. At the same time, the lowering of the threshold shall continue in the upcoming years to come into line with the levels of EU countries.

Since 1 October 2010, the exemption from VAT has been valid for the provision of educational services by private and public educational institutions. The aim of this proposal is to relieve students and pupils from the VAT load of 20%, as the real payers of this tax. This exemption aimed at lowering the fees that the pupils and students pay in private institutions.

Provision of services outside the territory of the Republic of Albania by a taxable person, whose venue of economic activity is

in Albania or, in the case of an individual, whose ordinary place of residence is in Albania, should be exempt from the VAT which is currently valid. This change is based on the problems identified in the course of the administration so far for this law; it aims at avoiding misinterpretations with regard to the tax treatment of some services within the country or abroad and, consequently, the unfair crediting of VAT, reduction of evasion as well as improvement and alleviation of administrative procedures for the tax payers and the tax administration. In December 2010, the Council of Ministers approved the draft law on some changes to the basic law of VAT, whereby it was proposed that for the provision of services made outside the territory of the Republic of Albania by a taxable person, the place of economic activity of whom is in Albania, or in the event of an individual, the ordinary place of residence of whom is in Albania, it shall be a service exempt from VAT, which was in place. It has also been proposed that VAT be reduced to zero per cent in the two following cases:

The income taxation of 10% in the monetary form for augmenting the capital with resources from outside the company, which are not taxed earlier and not accompanied with official documents establishing the origin of these resources. In the course of implementing in practice this Article by the tax administration, a series of cases has been highlighted where different companies augment their capital with other monetary assets, not declaring the origin. In order to check and tax the income that the various individuals put into the capital of the company as capital supplement, the capital increase tax has been proposed to be 10%. The income from various resources, not taxed earlier, shall be taxed by a filter applied by the taxation authority. This shall be done despite the failure of individuals to declare investing capitals in the company.

Value Added Tax for free professions, in 2010.

Introduction of the personal income tax declaration, from 2010;

Drafting the new integral law of VAT in full compliance with Directive 6 of CE, according to the table was determined in response to question 6. Drafting this law shall be done with the technical assistance of the European Commission, in the context of IPA 2010 and it shall be completed in June 2013. Impact on revenues is also expected with reference to improvements in the administration and collection of revenues. Hereunder we mention: measures for obliging entities to use fiscal equipment for the transactions of sale with the general public in cash.

Personal income tax

The forecast for the period 2010-2012 is: 29.9 billion ALL for 2010, 33.1 billion ALL for 2011 and 36.8 billion ALL for 2012, with an annual growth of respectively 9.5%, 10.7% and 11.0%. The forecast has been impacted by the current development of collection of revenue from this tax, expectation of economic growth and compensation of employees, new policies, as well as continuation of effects of good administration.

Revenues out of national and other taxes

The forecast for the period 2010-2012 is: 16.7 billion ALL for 2010, 18.5 billion ALL for 2011 and 20.6 billion ALL for 2012, with an annual growth of respectively 10.4%, 11.0% and 11.7%. The main share in the growth is made up of mineral rents.

Revenues out of customs duties

The forecast for the period 2010-2012 is: 8.3 billion ALL for 2010, 8.9 billion ALL for 2011 and 9.7 billion ALL for 2012, with an annual growth of respectively 6.7%, 7.6% and 8.2%. In forecasting this item, the nega-

tive effect on revenues by the continuation of reductions of various MTLs is considered to be balanced and exceeded by the positive effect of increase of imports, as a consequence of economic growth and lowering the tariff related barriers in trade.

Revenues out of Social and Health Insurance contributions

The forecast for the period 2010-2012 is: 54.9 billion ALL for 2010, 61.7 billion ALL for 2011 and 68.8 billion ALL for 2012, with an annual growth of respectively 13.1%, 11.9% and 11.2%. A growth is expected to be also with the proportion of these revenues to the GDP, from 4.4% in 2010 to 4.5% in 2011 and 4.6% of GDP in 2012. The forecast of revenues out of contributions for 2010 is based on the developments so far in terms of collection of revenues, extension of the effect of reducing the rate of contributions in the second half of 2009 and developments in separate economic sectors.

Fiscal social policies

Budget Expenditure Planning for 2010 has relied on the budgeting procedures based on objectives and products made available in all budgetary institutions for the first time in 2009. As mentioned previously, the 2010 Macroeconomic and Fiscal Framework was revised in January 2010, in order to reflect the negative effects of the global financial crisis. This resulted in changes of several expenditure and deficit financing levels, which are mentioned below in both their "initial" and "revised" levels. In this context, the total expenses of the state budget for 2010 were set initially at the level of 410.7 billion ALL, and then revised to 380.3 billion ALL or 30.6% of GDP. It should be noted here that the use of proceeds from strategic privatisation is not accounted for, since they shall be the subject of supplementary budgets. During 2010, the total budget expenses aimed to achieve:

Reduction of the budget deficit to 4.0% of GDP

Differentiated increase of salaries 4-10%

Increase of urban pensions by 7% and rural ones by 15%, and

Maintaining a level of capital expenditures equal to 5.4% of GDP

2.1.2.3 Education Policy

The transformation that brought about the birth of market economy has discovered the need for other levels of qualifications and skills towards the new technologies and new kinds of services. Market and practice orientation are now the target that need to be achieved through developing education and professional training. The education and professional training system is weak on one hand with regard to quantity and on the other hand with regard to quality. There is a lack of appropriate infrastructure, insufficient financing, a low supply of human resources, old curricula and an old management style. Actually there are 40 technical and professionally oriented schools spread throughout 22 regions. Only 3 schools from the total number are oriented towards agriculture and agribusiness. The liberalisation of licensing of the private institutions in higher education and academic freedom was one of the main decisions taken by the government after 2005. The strategy of the education system is focused on the practical needs of the country for increasing the skills and training of young people. Reviewing the curricula is one part of the reform in education in general.

2.1.2.4 SWOT Analysis

Strengths

Young people are very ambitious in learning foreign languages and the education reform is focused on learning foreign languages in all kinds of education systems.

Albania is a country with potential and highly ambitious people.

Albania has made considerable progress in some areas, like road infrastructure, privatisation, tax reform, facility for opening new business, and reducing the time for the licensing process, which is helping the development of the country in general on one hand and private initiative on the other hand.

The potential of tourism is one of the strong points in employment and professional training.

The building industry is one of the strongest industries for the moment and a potential for employment.

The food industry and joint-venture businesses are making progress in Albania.

Albania is still a possibility for foreign investments because of the low payment of the work force.

Albania has a great potential in hydro and wind energy investment.

Weaknesses

Some of the points of weakness of the policies are:

Albania faces uncontrolled demographic population movement towards large urban areas.

Illegal employment or black market employment is present in employment in businesses and there is a flow of illegal cash that evades taxes.

Unfair competition is usually used in the market economy.

The lack of control of cash flow situations is a problem because of logistics and the infrastructure is one of the objective reasons.

There is a lack of IT network system for communication through institutions in real time.

There is a lack of cooperation between social partners and they show irresponsibility in playing their constructive role in the reduction of illegal work or other infringement of labour and social insurance legislation.

There is an objective impossibility to cover or to control all economic activities established far away from urban centres.

The legislation conforms to EU standards, but the implementation needs to be strongly improved.

Opportunities

Albania still has the possibility of applying for financial and technical support from EU institutions.

The brain gain campaign started as an initiative of the government in 2005.

Albania has obtained free movement and liberalisation of visas in EU states.

There was a reduction in income taxes (flat rate tax of 10%).

The government started a reform of reduction of procedures for new businesses in registration and licensing.

The government decided to liberalise the higher education system and the system is exempt from VAT (Value Added Tax).

There is a tendency of the government to privatise state owned public services which help businesses to apply for and to increase income.

The decision was taken to reform old curricula in education and professional training with EU standards.

Albania has a young population.

Albania has a strategic position in the region.

Threats

There is still a need to discover the real unemployment and employments rates because of illegal work, which is becoming a great risk in mentality of employment.

There are still, after 20 years of building strong institutions, no professional structures and infrastructure in labour inspection, employment services and social services.

The liberalisation of the private market higher education entails the risk of artificially increasing the level of academic education compared to the marked needs for middle experts, technicians and professionals.

The old curricula are still implemented in public training offices and entail the risk of postponing the expected outputs in the labour market.

There is a great risk of making strategies and not implementing them, and then changing to new strategies. It is becoming a normal process for the new governments.

There are no appropriate decisions in keeping the line of implementation of different policies.

There is a risk of creating a mentality that the transition process is not finishing at all, and people still are not clear what to do with their future.

The pension system will face problems in the future because of illegal employment during the transition period.

2.1.3. Active and Passive Labour Market Policies

2.1.3.1 Recent policies

The main targets in improving the situation of private agencies of employment on the labour market should be:

- Enhancing the cooperation between them and the public employment services;
- Controlling and selecting at the moment of licensing, with a view to being capable of providing the services they are to provide.

Strategic objectives of the Ministry of Labour in the field of employment and professional training for the three-year period 2010 – 2012 shall be:

In the field of employment

The need to establish a modern and unique system of employment services for the entire country. This is to be achieved by:

- Boosting performance of employment services and, specifically, facilitation of employment, adjusting appropriately the supply and demand of employment;
- Reviewing the structure of the employment offices, giving priority to the specialists dealing with the employment services;
- Cooperation at regional and local levels, focusing on young people and persons from specific groups with problems entering the labour market;
- Focusing on the new programmes in the labour market, specifically for the separate groups like incapable persons, long term unemployed, etc.;
- Unification of the employment services and raising the level of labour of specialists in relations with the clients;
- Further training of specialists providing services with clients;
- Further improvement of monitoring and evaluation of employment services;
- Enhancing the quality of the short-term survey in the labour market carried out each year;
- Conducting employment fairs in all the towns of the country.

Establishing and developing partnership relations with other stakeholders in the labour market is also necessary. This is to be achieved through:

- Cooperation with universities, the Institution of Statistics (INSTAT), social partners and research institutions, and various donors;
- Establishing a work group at Tirana State University;
- Cooperation with private employment agencies;

- Joint fairs of employment – business services, each year by the Regional Office of Employment and National Employment Service.
- Development of IT services of employment as a key factor in improving the quality of services.

Establishing a database with information on the labour market for:

- Developing a new model of information system management of the labour market in National Employment Services, as a basis for launching the objectives and output-based management;
- Developing and implementing the process of self-service in the internet for unemployed jobseekers with the employment offices;
- Developing and implementing an IT system for registering the unemployed jobseekers and vacancies;
- Establishing the vacancies data bank with all the employment offices for introducing a high level of self-service with the employment offices;
- Improvement of contacts with enterprises;
- Intensifying, structuring and documenting visits to enterprises and interviews conducted to obtain the necessary information and boost facilitation capacities.

Development of human resources

The further training of the employment services staff to enhance performance through:

- Developing a model for identifying the needs of personnel for training;
- Developing strategies for the organisation of the training of the staff on a national scale, encompassing an indefinite number of trainers and multiplications;
- Boosting the capacities for launching surveys, studies and predictions regarding developments in the labour market, and making a qualitative analysis of separate elements;

- Putting in place a strategy for organising the training of the personnel.
- Improving the performance and cooperation with private services of employment, which is of great importance, as is enhancing the cooperation between the private and public services exchanging information on vacancies.
- Employment must be boosted through the programmes of employment encouragement.
- This shall be achieved through continuing with the application of existing programmes for encouraging employment, and applying the new programmes encouraging the employment of the category of persons who find it difficult to be integrated into the labour market.

Efforts shall also be focused on:

- Proceeding with the process of setting the priorities by the Minister connected to the labour market situation and development tendencies;
- Monitoring and evaluating the active policies with the commitment of the social partners;
- Information on the existing policies as an important element of these programmes;
- Encouraging the employment of disabled persons;
- Continuing the application of an employment programme for female unemployed jobseekers;
- Active participation of females in working out the policies guaranteeing the responsibilities and needs of the social groups discriminated against;
- Specific policies for needy female groups;
- Professional training free of charge for females who are heads of families, victims of trafficking, and women of the Roma community;

- Opening and offering courses of professional training for different non-agricultural activities for females in rural zones;
- Encouraging the employment and professional training of the Roma community;
- Encouraging employment of young people;
- Employment and professional training of minors working informally;
- Measures for encouraging employment and professional training of potential emigrants and those being returned.

Passive programmes

The level of unemployment allowance must be raised to the extent of 10-20% per year in order to reach ILO convention standard No. 168 "Employment promotion and protection against unemployment" and reach the level of 50% of the minimal salary at country scale. Reduction in the number of recipients of unemployment allowance as a consequence of their employment through their participation in active programmes should be to the extent of 10-15% on average per year.

The situation on the informal labour market should be updated.

There should be cooperation among the institutions, Labour Inspectorate, Institute of Social Insurance, and General Directorate of Taxation and National Employment Service regarding all the problems connected to the functioning of the labour market.

Social insurance policies

There should be further growth in the financial sustainability of the social insurance schema. The proceeds from the contributions are foreseen to grow at an average of 12-15% annually, so that in 2013, as compared with 2009, they should be around 50% higher. The expenses are foreseen to grow at an average of 8-10% annually, so that in 2013 they should be 35% higher than in 2009. In this way the self-sustainability of the social in-

surance schema grows, cutting the subsidies from the state budget.

It should be foreseen to increase the extent of benefits from the social insurances.

The policies of raising pensions, as an important and indispensable element of social protection, shall continue with an average pace of increase of 10%. Relying also on the forecast of the medium-term budget project 2010 – 2012, the increase in pensions for 2010 has been foreseen as 7% for urban areas and 15% for the countryside. The growth in pensions for the years 2011 and 2012 has been foreseen as 6% for urban areas and 15% for the countryside.

The differentiated growth of the extent of pensions for urban areas and the countryside shall continue to attain the objective of approximating the schema of the pensions of towns to that of villages. At the same time, although the contributions of the farmers shall continue to grow, the subsidies from the state budget shall also continue for the contributions paid by farmers, so that those retiring in 2013 shall be under the same circumstances as pensioners from urban areas.

The commitment of all the technical capacities for completing all the answers of the EU questionnaire in time is one of the most essential obligations of the integration process of Albania into the EU.

Among the objectives of the government in this field shall be the continuation of negotiations for entering into bilateral agreements, mainly with neighbouring countries where the number of Albanian emigrants is higher. Training at a national level shall benefit this process for the specialists of the field of social protection supported by IPA project, and SSR-SSC of CE, and the European Commission.

Completion of discussions among experts up to the complete implementation of the Agreement with Turkey in the field of social protection is necessary to be completed.

At the same time, procedures for signing agreements with Belgium, Hungary, Romania and Bulgaria shall continue.

Completing the analysis and survey of Albanian legislation of social insurance as an obligation for the approval and signing of the European Code of Social insurance must be ensured. This process shall be done with the support of IPA project SSR-SSC of CE, and the European Commission.

There must be active participation in the discussions with the interest groups over the long term strategy document of the social insurance for the improvement of the schema, according to the specific programme with the Ministry of Finances.

There must be preparation of the political priorities and the medium-term Draft Budget in the field of social insurance for the period 2010-2012, relying on the medium-term strategy of development programme of the government, conducting the PBA quarterly;

In the framework of the process of approximation of legislation and social protection to that of the EU, the respective legislation has been updated for 2009, in accordance with the programme MISSCEO, assisted by the Council of Europe.

Raising pensions and cutting the extent of social insurance contributions for 2009 was an important step. In 2009, the minimal income of pensioners amounted to 12,227 ALL per month in towns and 7,130 ALL per month in villages, thus experiencing an increase of more than 46% for pensioners in towns and over 98% for pensioners in villages, compared with 2005. This increase totally recoups the negative effects of inflation on the extent of pensions; it provides a real addition to the pension of town dwellers and implements the programme of the government that low pensions grow at a quicker pace. This increase benefited 371,000 pensioners of towns and 150,000 pensioners of villages, encompass-

ing old age, invalidity and family pensions. For 2009, the minimal income of pensioners in towns grew by 8%, while in villages it grew by 17%, compared with one year earlier. This growth constituted a real supplement to town pensions and simultaneously implemented the programme of government that low pensions were increased at a faster pace, so that they were doubled within a time period of four years. The faster and differentiated increase of the pensions of the countryside is done in line with the strategy of developing the schema of social insurance, with a view to equalising them with town pensions in 2012. Starting from May 1, 2009, social insurance contributions have been cut by 5 points, thus from 29.5% they went down to 24.5%. The share of 5 points is cut from the share of the employer contribution. The cutting of the rate of contributions has had an important impact on reducing informality, and it also might help the number of contributors to grow, and increase the revenues out of the contributions.

In the field of salaries

The drafting of the draft decision on determining the minimal salary at country scale and discussion with the social partners through the activation of the Commission for Salaries and Pensions has been carried out, based on reception of feedback from the Ministry of Justice and the Ministry of Finance, and approval at the Council of Ministers of the minimal salary of 18 thousand ALL per month, up from the 17 thousand ALL it was in the previous year.

Preparing the information on the fourth report of the European Social Charter, for its Article 4 connected to emoluments and salaries, has been carried out. All confirmations coming from various institutions concerning the salary increases due to harmful and risky jobs have been taken and all clarifications have been provided in accordance with the legislation in effect as well

as for institutions which do not benefit. This has improved the data base of salaries for the civil service in cooperation with DAP, helping in the preparation of some draft decisions concerning salaries in the public sector for auxiliary staff.

Participation in the work group in accordance with the Order of the Premier for the review of the salary system of public institution employees was also important.

The annual report has been drafted connected with ILO convention No. 26 "Mechanism for fixing the minimum salary", convention No. 131 "Fixing the minimum salary", convention No. 95 "On protection of salaries" and convention No. 100 "Equal remuneration". The report was considered and approved by the Salaries and Pension Commission.

The minimal salary was foreseen to grow each year at a faster pace than the annual inflation index, aiming at narrowing the differences between high and low salaries.

Indexing salaries is foreseen to occur each year to the extent of the annual index of inflation and the growth of salaries for separate sectors in accordance with the respective sector strategies.

Social services

The Directorate of Social Policies pursued the drafting of policies, strategies and legislation and follows up the implementation of the three basic programmes, on the reduction of poverty for individuals and needy groups:

Disability allowance programme;

A residential and community services programme for needy individuals and groups was implemented.

The basic law of these programmes is law No. 9355, dated 10/03/2005 "On social aid and services" as amended, these being programmes developed at national level and financed by the state budget.

Programme of Economic Aid

This programme from the beginning started to offer support for families and individuals on low income or on insufficient income. The poverty map serves as a basic document determining the percentage of the population and number of families for each municipality/commune under 2USD per day/per capita. This programme was under the responsibility of central and local governance. In 2009 the population below the poverty line of 2USD/day was around 12.4%, down from the 16.9% which it was in 2007. For the period 2009-2011, according to the projections carried out, the number of families receiving economic aid (2009) was around 95,000, and this is even due to the effects of the economic crisis. Based on the Sector Strategy of Social protection in 2010 the number of families receiving economic aid (2010) shall be 80,000/85,000 in 2009 or 6% less. In 2011 the number of families receiving economic aid amounted to 74,000/ 80,000 in 2010 or 7.5% less. Municipalities and communes identify, in accordance with the national criteria, the families to be included in the economic aid schema.

In 2009 4.2 billion ALL was allocated in economic aid, up from 3.5 billion ALL in 2008. This also reduced the consequences of the global crisis. In 2010 the budget fund increase was stipulated, along with the review of some improvements being drafted.

Programme of payments for disabled persons

This programme is based on the evaluation of the disability of the individuals. The disability was evaluated by specialised medical commissions every year. The funds were programmed by the Ministry of Labour and sent as transfers to the local units, where the latter make the payments for these social categories.

Services of social care

In cooperation with the civil society and local governance unit, the community services for

children, incapable persons and older persons have been extended. Cooperation with these entities has been extended; a total of 50 entities have been licensed.

2.1.3.2 Mediation

The mediation service in Albania is composed of a public service and a private service. The public service is offered by employment offices which are run by the National Employment Service, with the Ministry of Labour, Social Affairs and Equal Opportunities as policy maker. The private mediation service is offered by private employment agencies. The legal rules of the private mediation services system are not much different from the public mediation service. A procedure is stipulated for licensing the private employment agencies which will run the mediation services, within and outside the country. The law requires different criteria to be fulfilled before licensing. The mediation in employment is stipulated in Albanian legislation especially in the law of promotion of employment. The mediation for employment for outside the country is stipulated in the law for emigration for employment reasons. The mediation process is linked with training mediation, which is a middle step between unemployment and employment. The public and private mediation services are using both ways of training as a means of mediation to help jobseekers to promote their skills up to employment. Actually the public mediation service is using different methods for mediation of employment, such as employment through mediation with an action plan, mediation for employment after different kinds of training, mediation to employ unemployed people inside the unemployment payment scheme, mediation for the groups of people which are part of the social payment scheme and services for individual employers or companies. The mediation with an action plan is a method

which is applied in every region of the country where the employment offices are situated. This method is applied to some target groups, such as young people, females, and long term un-employed within the unemployment payment scheme registered in public employment offices. Through the mediation with an action plan the public employment offices intend to employ people in different areas, such as industry, services, trade, etc. 35% are employed after professional training courses offered by public employment services. This figure represents only the persons who are employed after the mediation of the public employment offices. It is important to mention that not all the people that have finished the professional training present themselves to public employment offices. It is possible to have a large number of employed persons, but they are not recorded in the database of the public employment offices. It is necessary to have more studies and research on the persons who are not presented to public employment offices after the professional training. Regarding those employed during the mediation, 41% have elementary school education, 46% have high school education, and 14% have university education. The success in mediation depends on the age of the jobseekers, education level, and professional level. In some regions in the north-east some of the number of people registered as unemployed, 47% were between the ages 15-35, which is the most required age from the labour market. The difficulty for their employment stands in the fact that 48% of all have elementary education. Employment through mediation was realised in a large percentage around 88% of the target group, and 20.6% of the total number are unemployed people that are part of the long term scheme of unemployed payment. Mediation is more successful with the group aged up to 25 years. Beyond this age mediation is going to be reduced.

The group in the social economic help scheme was composed of members aged over 40 years (44% of the total number), from which 49% have elementary education (up to 9th grade). This group profits in the long term from the economical social help scheme. Passiveness was one of the most important issues of this group. These persons did not even have the intention of being employed, but they wanted to be supported financially by the scheme. They came regularly every three months to receive the payments. Their passiveness was explained by the lack of the transparency in their employment on the black market. This group refused to participate even in professional training. For the year 2010, the climate of cooperation between business and the public employment service has been improved. They have declared their vacancies in the public employment offices more than 10% more, compared with 2009. There was also increased employment through visits at the enterprises, although the number of visits at the enterprise from the local employment offices was reduced in 2010, but it showed that the efficiency of the visits was higher.

2.1.3.3 Training

Public professional training

As to the annual objective of 8,000 persons to be trained in 2009 during the period January – November 2009, 6,173 persons were registered and 5,887 persons are certified, of whom 3,177 are females. The number of unemployed jobseekers registered at an employment office, who have been trained in public centres of professional training is, for the 11-month period, 2033 persons, of whom 829 are females, with a reduced fee 1,279, free of charge 344 persons, of whom 144 were Roma people, 67 were orphans, 42 were trafficked females, 10 were disabled and 81 were previously prosecuted persons.

Those employed were following the completion of the courses for the 11-month period during 2009, and 304 unemployed jobseekers, of whom 201 were females.

Private professional training

In the field of private professional training for the 6-month period, licensed in total were 99 persons or 62% of the annual target, whereby 45 cases were re-licensing. The share of NGOs in these persons was 11 or 12% of the total. As a breakdown of the total number of licensed persons as a 6-month period, 44 were licensed in Tirana, or 44% countrywide. Another specialty of the licensed entities was the relatively high number of persons in hair-dressing-aesthetics, being in total 58 persons, or 59% of the total number of licensed entities.

The development of the labour market information is a key factor for improving the quality of the employment services, aiming at the establishment of an electronic database, as an important element for improving the employment services in this framework. The short-term survey of the labour market was done each year, as well as the forecast of its tendencies for the upcoming period including the risk of unemployment.

In addition to this, the National Employment Service has carried out another survey on the missing skills in the labour market in cooperation with ILO.

964 economic enterprises were interviewed at country level or 1.6% of the total of the private existing enterprises;

72% were local legal entities; 6% were enterprises with joint capital and foreign capital; and 22% were family businesses;

78% were enterprises with up to 20 employees;

59% were enterprises with an operation period of more than 5 years.

The General Directorate of the National Employment Service has tasked employment

regional offices with the undertaking of segmented surveys of separate branches of the economy in the context of drafting the action plans, labour platforms for attaining the indicators and enhancing the quality of the information they possess.

Passive Policies

Passive policies include ensuring the revenues for unemployment, as well as supporting the participants in courses and long term unemployed people.

Starting from 01/05/2009, the basic level of unemployment allowance was increased by 6%, thus from 5,980 it was raised up to 6,300 ALL per month and the granting of benefits was according to the Council of Ministers' Decision. In accordance with this, the compensations granted to each beneficiary, on average, remain at an average of 8300 ALL per month.

For 2009 the number of the beneficiaries in total was 9,832 persons, of whom 5,394 were females, the main beneficiaries involved in the scheme of unemployment allowance are 73% from the private sector, the persons laid off due to the privatisation of Albanian Refinery Marketing Oil state owned company and Albanian Petrol state owned company received unemployment payment, since the period for benefiting from the special government act expired.

The world economic crisis did not have any impact on the pre-ordered Albanian business, since these businesses laid-off personnel at the outset of the crisis, but they have re-employed them on new employment contracts.

In the course period in 2009, 517 persons from the unemployed jobseekers receiving unemployment allowance have been employed.

In the field of professional training

Modernising the curricula model of educational and vocational training is important,

to approximate it to the requirements of the labour market and to enhance the flexibility scale, as is institutionalising the two-instance structure of curricula of educational and vocational training and its gradual modernisation. Drafting the bylaw acts underlying the two-instance and modular structure of the educational and vocational training curricula must be carried out.

There is a process of developing institutional mechanisms for performing the new functions and supporting the current functions in educational and vocational training. This shall be achieved, thereby strengthening the role of the national council of educational and vocational training (specialised commissions and secretariat) and the institutionalisation of the cooperation between educational and vocational training and local businesses.

Developing teaching and managing skills for the educational and vocational training personnel:

- There should be strengthening of the current institutional mechanisms for in-service training, for the teachers and instructors of educational and vocational training;
- Drafting the programmes for the in-service training of specialised teachers and instructors of educational and vocational training, in compliance with their needs, is an important issue;
- All the specialised teachers and instructors should attend 5-7 days of training per year;
- There should be strengthening of the institutional mechanisms for training the heads of schools/centres concerning the specific issues of management in the sector of educational and vocational training;
- Drafting the programmes for the in-service training for the heads of schools/centres of educational and vocational training in compliance with the needs is an important step.

- There must be a process of complementing the legal normative framework of educational and vocational training with laws, decisions, instructions and specific regulations underlying all the training changes in this sector.
- The educational and vocational training law should be adjusted to the new developments;
- A legal-normative framework should be established, permitting a more considerable commitment of the schools/centres in economic activities, for boosting their financial autonomy, as well as passing from input-based financing over to output-based financing in the field of professional training.
- There should be quality and quantity development of the buildings, premises and teaching equipment underlying the forecast quality and quantity growth of the educational and vocational training offer. This shall be achieved through:
 - Restructuring the buildings and existing premises for theoretical and practical teaching in the professional schools and centres;
 - Provisioning with the necessary material/didactic resources for theoretical and practical teaching;
- Establishing the new centres in those regions where the demand is more evident and establishment of ambulant training centres.
- Raising the number of persons trained in the professional courses and employed persons after training. In 2010, we shall have 6,000 trained and 3,000 employed after training, in 2011, we shall have 6,500 trained and 3,400 employed after training, in 2012, we shall have 7,000 trained and 3,800 employed after training.

2.1.3.4 Public Employment Service

The National Labour Service is a public employment service with autonomy and the status of the central state administration. Its activity is ruled by the law on promotion of employment. The National Labour Service is composed of 36 employment offices, 12 are regional and 24 are local with a total staff number of 372 persons. The structure of the National Employment Service and its competencies are stipulated and approved in decision of Council of Ministers No. 42 on January 17, 1998, modified with other decisions No. 263 on May 25, 2000, and No. 17 on January 10, 2003.

The National Employment Service (NES) focused on mediation services for the job seekers that are registered in the unemployment payment scheme, but also persons who want to change their actual job, persons with disabilities and employers. It offers professional consultative services to increase skills and to promote self-employment. It manages the public funds approved by the government and public schemes. Payments for unemployed clients are registered in its database. It is responsible for financing employers who respond to different calls for proposals or projects for opening new jobs, or employ young people, or people who have graduated from universities. It cooperates with local governments to develop public works through employing the clients of the public services, encouraging the employers to employ persons with disabilities. It offers professional training and retraining for job seekers and young people between high school and university. It credits companies who train and retrain their employees. It is responsible for data collection and statistics, studies and research of the labour market situation. Within the Employment National Services there are also services related to professional training orientation, as well as the practices of labour

clubs and emigration offices. The Public Employment Service has sent for training in the Public Professional Training Centres 65% of the total number of those registered as unemployed for 2010. The method of Labour Clubs intends to increase the capabilities of each member to be able to be employed. The method was tested in one of the south-west regions. As the result of testing, 19% were employed in construction, from the training of 100 unemployed, when 70% of them were more than 45 years old and had elementary level education (up to 8th grade). The emigration offices, on one hand, deal with the returned emigrants who intend to start new businesses in Albania after the experience they have gained in other countries and, on the other hand, with returned Albanian emigrants who want to be employed in the country. For 2010, 650 returned emigrants are officially registered as job seekers. 52% of them are 25-40 years and 42% of them have elementary education (up to 9 years). 10% of them have found a job as a result of labour office mediation. One promotion of employment is to create active policies to support full time employment, productively and freely chosen by citizens. The state establishes and develops employment offices which operate under a central authority.

2.1.4 Horizontal Principles

2.1.4.1 Economic Social Councils

There is no Economic and Social Council established yet in Albania. The National Labour Council is established to regulate social dialogue in the country.

2.1.4.2 Equity

There were data that women were not sufficiently encouraged to enter the market and

as a consequence were less active in searching for a job. Although the Labor Code of 1995 and the Law on Gender Equality of 2004 legitimated the equal treatment between men and women, on average women incomes were lower than those of men, as well as their percentage of participation in the labor market. In fact specific policies included in the Employment Sector Strategy did reflect commitment for equity and non-discrimination in favor of groups in need (women included), however they need to be enforced efficiently and accompanied by a allocated specific budget, as for instance specific assistance for training and employment of given groups in need, reduction of tariffs for specific groups that have been excluded from the labor market. There were still groups to be taken into consideration: youth, victims of traffic, former prisoners, Roma and Egyptian women.

2.1.4.3 Social Dialogue

Social dialogue in Albania consists of tripartite institutions. The three partners involved in the social dialogue are the State as mediator and regulator, trade union organisations, and employers' organisations. Social dialogue is regulated by law: it is stipulated in the Labour Code. The main institution is the National Labour Council. The institution has functioned since 1996 with the first labour code after the democratic developments of the 90s. The National Labour Council is composed of 7 ministers from the government, 7 members from the most representative trade unions and 7 members from the most representative employers' organisations.

The social partners sat together for the first time in 1996, with the establishment of the National Labour Council. This was a notable event on the road towards true partnership and Social Dialogue, and it was achieved at the insistence of trade unions with indis-

pensable assistance from the ILO. The National Labour Council – an institution working for social understanding, for harmonising the interests of various players in economic production, for diminishing conflicts and for keeping social peace – was in place. In the same year, parliament passed the Labour Code, thus placing the cornerstone of labour legislation.

Pessimistic conclusions may be expected, considering that the government has had 11 labour ministers in as many years. This reflects the very fragile political situation in the country, which has sometimes ended in very serious, even terrible events.

The operation of the National Labour Council has shown some positive results. For example, it has enabled the social partners to gain legitimacy and to exert a degree of influence on economic and social policies – particularly in the area of income and wage policies, but this was before 2006.

Nevertheless, it has also shown some administrative weaknesses, and perhaps the irregularity of its meetings could be mentioned first. Although the Council's constitution requires at least four meetings per year, it has often been convened much less frequently – the longest period without a meeting was 16 months. The anomic functioning of tripartite commissions is another administrative weak point. A lack of partnership and Social Dialogue in the different fields of economy and at local levels is another negative sign, as was the fact that the Council has never had financial independence, which would be the real foundation for true independence of the institution.

Workers and employers believe that the National Labour Council has not been heard properly when discussing serious and important problems of economic life. For example, the Council's opinion was not sought when a major socio-economic development and poverty reduction strategy was on the government's agenda. The opinion of workers is not

considered during the course of privatisation in general or strategic privatisation in particular. At times, discussion of the state budget has not involved the social partners.

Workers and employers are therefore not satisfied with the functioning of the National Labour Council, and they have asked for the ILO's assistance in reviewing the basis of its operation. This began with the revision of the Labour Code, where the ILO offered very specialised input, making comments on the draft legislation. The ILO's contribution was taken into consideration and incorporated into the final draft submitted to parliament. The new Labour Code was passed by parliament in July 2003.

The technical tripartite committees, composed of technical representatives of government, trade unions and employers, are not functioning as required. Normally, they have had some formal meetings, although not regularly before the general meeting of the National Labour Council. Usually the decisions that are taken by the government do not bring about any changes or suggestions by technical committees or even the National Labour Council itself.

For many years there has been a proposal by trade unions and the employers' organisation to establish the Economic and Social Council, which would have an extended area of discussion for many more issues related to government policies, but still the proposal has not been taken into consideration by the government.

There are no data regarding the activity of the National Labour Council from 2006, up to 2010 in the database of the Ministry of Labour and Social Affairs and Equal Opportunities.

Social dialogue is also institutionalised in other institutions like the National Employment Service or the Social Insurance Institute. The representatives of trade unions and employers' organisations are members of the tripartite commission of Regional Employment Offices for employment projects proposed by private com-

panies sponsored by employment state funds. These commissions are formally involved in the process. Also the trade unions and employers' organisations represent their interests in the executive board of Social Insurance Institute, which is now part of the Ministry of Finance.

There are no official data which can offer any updated information related to the developments of the process of social dialogue within these institutions or any other data related to the activity of social partners as groups of interest.

The social partners after 2006 have not registered any formal or informal activity.

According to the labour code amendments in 2003, a great many procedures are stipulated for social dialogue in the case of any labour conflict or disputes, or even strikes. Officially there are no records which can show the involvement of social partners in developments of the labour market or activity of the National Labour Council as the legally oriented institution to engage in labour disputes.

2.1.4.4 Education

The transformation that brought about the birth of market economy has discovered the need for another level of qualifications and skills towards the new technologies and a new kind of services. Market and practice orientation are now the target that need to be achieved through developing education and professional training. The present system of education and professional training is weak on one hand with regard to quantity and on the other hand with regard to quality. There is a lack of appropriate infrastructure, insufficient financing, low sources of human resources, old curricula and an old style of management. At present there are 40 technical and professionally oriented schools spread throughout 22 regions. Only 3 schools from the total number are oriented through agriculture and agribusiness.

2.1.5 Country Specifics

2.1.5.1 Migration

Albania has approved strategies which are under implementation. These strategies have the intention of ensuring social protection for the groups in need, including even Albanians who have returned from abroad. The institutional framework for managing the migration issues also covers the return and reintegration issues of Albanians. The institutions related with migration issues which have a stakeholder role are as follows: the Ministry of Labour, which is one of the main ministries responsible for drafting migration policies and implementing them through their structures, such as the Directorate of Policies for Migration, Return and Reintegration, which is directly involved in preparing and implementing the migration policies; the Directorate of Policies for Employment and Professional Training, which prepares the active and passive programmes for employment and professional training even for returning Albanians who need orientation and professional training; the National Employment Service (NES), which operates through its employment offices supporting the returning Albanians with information and orientation on the labour market; the Social State Service (SSS), which is involved in implementation of policies and legislation for social services. (This structure is part of the national mechanism to identify victims of human trafficking); The Ministry of Foreign Affairs (MFA), which coordinates the bilateral and multilateral negotiations between Albania and other countries, including the repatriation agreements and emigration for employment purposes; the Ministry of the Interior (MI), which is one of the main players in the managing of migration within the country, relating entrance, stay, transit

and exit from the Republic of Albania and the implementation of reacceptance agreements; and the Border and Migration Police Department in the State Police, which is responsible for the implementation of reacceptance agreements through interviewing and selecting the victims of human trafficking, or foreigners who have crossed to the EU area illegally, through Albanian territory. They offer the necessary assistance, and even take care of transporting them to nearby urban centres.

The National Coordinator against Human Trafficking manages and monitors the whole national mechanism against human trafficking and the unaccompanied minors. The Ministry of Education and Science (MES) is also responsible for the education of Albanians living abroad and facilitating their access to education inside the country, such as validating the diplomas for the students who are studying abroad to be registered in the country education system. The Directorate of Local Government and Decentralisation is responsible for the registration of the population and even for emigrants' children born abroad. The Ministry of Economy, Trade and Energy, (METE) invites Albanians living abroad to help them to invest in their native country.

Another migration service is the work-permission for foreigners. 1,839 have been given work permits, and 35% of them were requested from Turkish, Chinese, Greek and Italian citizens. Within the 35% of work permits, 45% were Chinese, 39% were Turkish, 8% were Greek and 7% were Italians. The highest percentage of work permits is composed of employees. The most required activities for work permits are 14% in the building industry, 13% in services, 12% in trade, etc. 1226 work permits were approved by all the regional employment offices.

2.1.5.2 Subsidies

There is cooperation with third parties and donors for the implementation of the projects of EU, ILO, UNDP and other donors that operate in employment and professional training with the intention of improving the quality of services of the National Employment Service towards jobseekers and businesses.

Starting from 2009 an increase in cooperation with the other partners and players on the labour market was recorded. A lot of activities have been developed in all regions where different kinds of institutions participated, such as labour inspection, tax offices, local governments, chambers of commerce, education and health units, the National Statistics Institute, etc. The activities were focused on the exchange of information, presentation of the employment programmes, active participation on the labour market, fairs, etc.

In cooperation with the CARDS project, "Enforcing the labour market and supporting the Labour Inspection services and regional labour employment offices in Albania" is piloting the working club method in Fier, where the infrastructure was established and the staff responsible were trained. The SIDA project on the computerisation of the employment service system is still in process. The investment in hardware and software from SIDA is 500,000 euros.

2.1.6 Conclusions / Recommendations

2.1.6.1 Trends

Unemployment

The trends of unemployment from the Albanian Institute of Statistics (INSTAT) showed that, at the end of 2010, the unemployment level was 13.5% or 0.3% less than in 2009. The unemployment database showed that 143,000 people were unemployed. If we

compare the trends of employment for 2010 will see that unemployment fell when employment rose.

During 2011, 51,687 new jobseekers were registered. The database shows that the newcomers are between 20 and 24 years old. An increase in the number of jobseekers with higher education and over 45 years of age was noticed. The last group was registered as jobseekers to become part of the unemployed status and to profit from the health insurance scheme of payment.

On the other hand 53,692 people left the unemployment payment scheme of payment, where 23% of them were employed, 7% were on training courses and 2% were involved in employment promotion programmes, the rest have been deleted from the unemployment list because they are not periodically presented, according to some specific legal obligations that have been not respected.

2.1.6.2 What Should be Done?

Governments need to be focused on the implementation of the reforms in employment, education and professional training.

There is a need for coordination between public institutions with regard to identifying the illegal work.

It is necessary that the public employment service should have the appropriate infrastructure, staff and methods to promote employment of jobseekers and businesses.

It is strongly recommended that the policies and strategies should be implemented, rather than changing to new ones.

The system of new curricula in education and professional training needs to be finished and implemented as soon as possible.

The different policies need to be coordinated and continually monitored by specialised structures.

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Bank of Albania

2.2 Bosnia and Herzegovina - Future Stuck in the Past

Damir Miljević

Abstract

Bosnia and Herzegovina has the worst economic and social indicators in the whole of SEE. A complicated, complex and expensive state structure as a result of the Dayton Peace Agreement is a major barrier for the necessary social, structural and economic reforms.

The country is stuck in the past and almost all social energy is focused not on solving the problems, but on the question of who is more guilty for non performing and bad economic and social results. More and more people are leaving the country and working in the grey economy in western countries or on the black labour market, which was suppressed by a low level of taxes and contributions on salaries are starting to bloom again as governments are putting more and more financial pressure on companies.

The way out of this situation lies in changing the way of thinking of the people who still live in Bosnia and Herzegovina. The first and most necessary change has to happen in people's minds. A job, existence, family and personal future have to become a priority. After that all kinds of reforms in almost all sectors are needed. Perhaps it seems too complicated, too long and too complex? Yes indeed. But there are no simple solutions for a problem as complex as Bosnia looks today.

Bosnia and Herzegovina is a country with a complicated structure, created by the Dayton Peace Agreement in 1995, consisting of 3 nations, 2 entities, 1 district and 10 cantons, with 13 constitutions and parliaments and 13 governments with 158 ministers and thousands of government officials. This fact has to be borne in mind when we are discussing and analysing the labour market and employment policies in BiH.

2.2.1 Labour Market Situation

(Development of the Years 2006-2010)

The main generator for new job positions in BiH has lain for the last five years in the

growth of the public sector in the period 2006-2010 and the private sector before the 2008 crisis. According to the last data on employment trends, new job positions have been opened mainly in the public sector or in the private service sector. Most of these job positions were obtained by private-political recommendations, which represents a significant obstacle for unemployed persons of mature age or especially for young/educated persons, where they find that the only way out of such a problem is to move to abroad or to become a member of a political party. Both decisions implicate consequences on the current market labour situation.

Table 1: Main labour market indicators for Bosnia and Herzegovina 2006-2010

	2006	2007	2008	2009	2010
Economic activity rate ² (15-64)	51.3	52.2	53.5	53.2	54.0
Employment ³ rate (15-64)	35.0	36.8	40.7	40.1	39.0
Employment rate male (15-64) %	46.1	48.7	52.9	51.2	49.6
Employment rate female (15-64) %	24.0	25.0	28.7	29.3	28.6
Employment rate of older workers ⁴ (55-64) %	30.6	31.9	34.4	34.0	26.8
Employment by main sectors %					
Agriculture	20.5	19.8	20.6	21.2	19.7
Industry	22.0	22.9	21.7	21.2	21.9
Construction	8.8	9.6	10.8	10.3	9.1
Services	48.4	47.3	46.7	47.1	49.1
Unemployment rate ⁵ %	31.1	29.0	23.4	24.1	27.2
Share of male labour force that is unemployed (%)	28.9	26.7	21.4	23.1	25.6
Share of female labour force that is unemployed (%)	34.9	32.9	26.8	25.6	29.9
Unemployment rate of persons ⁶ <25 years	62.3	58.4	47.5	48.7	57.5
Long-term ⁷ unemployment rate %	26.7	25.0	20.2	20.0	22.3

Source: Statistical Annex of BiH progress report 2011 – EU Commission Staff Working Paper, Brussels, pages 60-63.

The above-mentioned data for unemployment level in % are according to the ILO methodology. Some data show that the official unemployment level in BiH for 2011 is 42.5% and the predicted level for 2012 is 41.5%.

Employment bureaus in both entities registered a significant increase in the number of unemployed persons in 2010. This number increased by 3.9 % in the Federation of BiH (Federation) compared to 2009. The reasons

for losing a job are the following: (59%) termination of fixed-term contract; agreed termination of work contract or breach of work duties. Also, the rest of the newcomers according to the evidence of the Employment bureau declared themselves as a redundant labour force (38%) and 3% of them lost their jobs as a result of bankruptcy, liquidation, or restructuring or privatisation processes of the company.

Data for the Republic of Srpska (RS) are just slightly different. The number of unemployed persons compared to 2009 increased by 4.2% in 2010. More than half came to the RS Employment Bureau because of job termination e.g. 31% of them were declared as a

² Share of population aged 15-64 that is economically active

³ Share of population aged 15-64 in employment

⁴ Share of population aged 55-64 in employment

⁵ Share of labour force that is unemployed

⁶ Share of labour force aged <25 that is unemployed

⁷ Share of labour force that is unemployed for 12 months and more

redundant labour force, 26% signed to agree termination of a work contract, 18% signed the termination of a fixed-term contract.

Also, if we want to observe the level of unemployment according to the cantons/regions, the lowest level of unemployment is still in the biggest cities in BiH - region Banja Luka 28.8% and Canton Sarajevo 36.3%, where there is still a demand for labour force. On the other hand, the highest levels of unemployment are in Canton Una-Sana (55%), Canton Tuzla (53%). The regions of Prijedor (46%) and Bijeljina (41%) represent the regions in the RS with the highest level of unemployment in 2010.

As a result of the economic crisis, the level of employment in the private sector decreased. The only evidenced increase in the level of employment is found in the public sector.

Data for private sector/branches show a decrease in employment in 2010, as follows:

- Industrial sector 3.8%
- Constructing sector 7.0%
- Retail sector 1.3%
- Catering 7.4%

From another side, the public sector shows an increasing level of employment in 2010 by 1.9%, especially in education and government sectors.

According to the last data⁸ published by the Agency for Statistics of Bosnia and Herzegovina (BHAS) the structure of employed persons changed from 2008 to 2010. In the agriculture sector the number of employees decreased from 183,000 to 166,000, where a significant number represented the male labour force (18,000 closed job positions in the agriculture sector). Also, the male labour force lost 20,000 job positions in industry from 2008 to 2010. In the same period, the female labour force lost 8,000 job positions in industry.

⁸ November 2011, Demography issued by Agency for Statistics of BH, Sarajevo

Table 2.⁹

Persons in employment by groups of sections of economic activities and sex, BiH

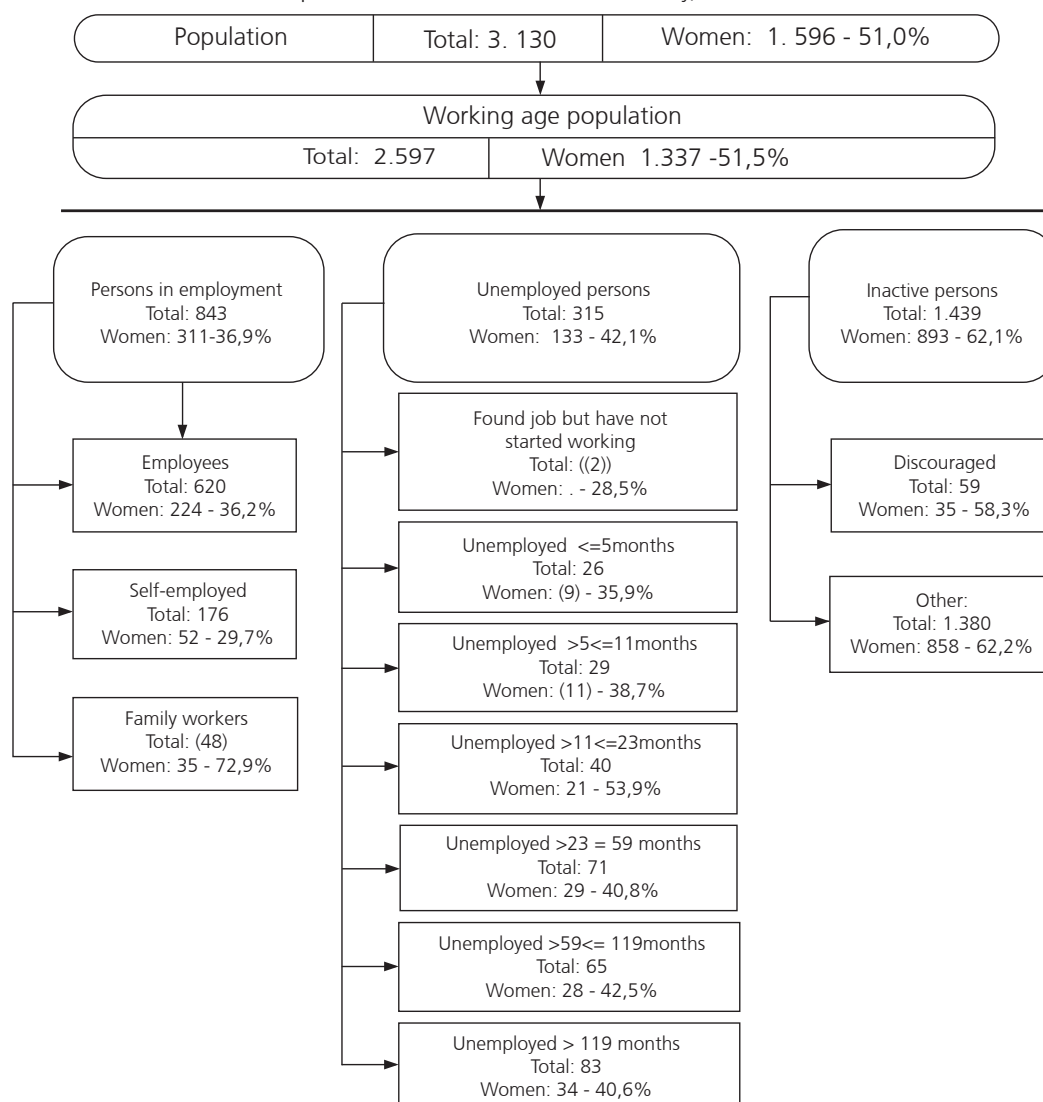
(000)

	Ukupno / Total			Muški / Male			Ženski / Female		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Ukupno / Total	890	859	843	573	541	531	317	318	311
Poljoprivredne / Agriculture	183	182	166	113	100	95	71	82	71
Nepoljoprivredne / Industry	289	270	261	230	218	210	59	52	51
Uslužne djelatnosti / Services	418	406	416	230	222	227	188	184	189
Struktura / Structure									
Ukupno / Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Poljoprivredne / Agriculture	20,6	21,2	19,7	19,6	18,6	17,9	22,3	25,8	22,8
Nepoljoprivredne / Industry	32,5	31,5	31,0	40,2	40,4	39,5	18,5	16,4	16,4
Uslužne djelatnosti / Services	47,0	47,3	49,3	40,2	41,1	42,6	59,2	57,9	60,8

Graph 1.

A review of basic segments of population is given in the following graph:

Population in accordance to the activity, in thousands



Source: Labour Force Survey 2010, Agency for Statistics of BiH, Sarajevo

⁹ Source: ibidem footnote 7

It is very interesting to comment on the graph presented above, where we can see a very modest percentage of employed women (36.9%) compared to the total number of employees, bearing in mind that the female population represents 51.0% of the total population and 51.5% of the working age population.

The figures from the table below show that the educational level of the labour force in BiH is very low, because only 13.3% of all the labour force has higher education. The problem is even worse if we consider that every fifth person in BiH has only primary education or none at all. It is encouraging that in the period 2008-2010 the percentage of the working force with primary education slowly decreased.

Table 3.

Labor force by highest level of education attained and sex, BiH

	Ukupno / Total			Muški / Male			Ženski / Female		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Ukupno / Total	1.162	1.132	1.158	729	703	714	433	428	444
Osnovna škola i manje / Primary school and less	279	259	238	165	149	137	115	110	101
Srednja škola / Secondary school	753	736	766	497	481	499	256	254	267
Visa, visoka škola, magisterij, doktorat / College, university, masters, doctoral degrees	130	137	154	68	73	78	63	64	76
Struktura / Structure (%)									
Ukupno / Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Osnovna škola i manje / Primary school and less	24,0	22,9	20,5	22,6	21,2	19,1	26,5	25,6	22,8
Srednja škola / Secondary school	64,8	65,0	66,2	68,2	68,4	69,9	59,1	59,4	60,2
Visa, visoka škola, magisterij, doktorat / College, university, masters, doctoral degrees	11,2	12,1	13,3	9,3	10,3	10,9	14,5	15,0	17,0

Data for labour force by highest level of education attained and sex shows also that the female population tend to increase their level of education in the last few years. If we compare university obtained titles of education per sex, the female population is almost on the same level as male, but the percentage change is stronger for females, e.g. from 14.5% to 17.0% compared with male e.g. from 9.3% to 10.9%, which is an excellent indicator because the educated female population demonstrate the confidence that only

by obtained, higher education level will they be in a position to become more competitive on the labour market in a traditionally labour market oriented country, compared with their male colleagues.

The number of employed persons in BiH decreased by 5.5% in 2010. In other words 47,000 jobs were lost compared to 2008 (see table below). It is very significant that 21,000 of the jobs lost, or 45%, represent self-employed people – micro and small businesses and farmers.

Table 4.

Persons in employment by employment status and sex, BiH

(000)

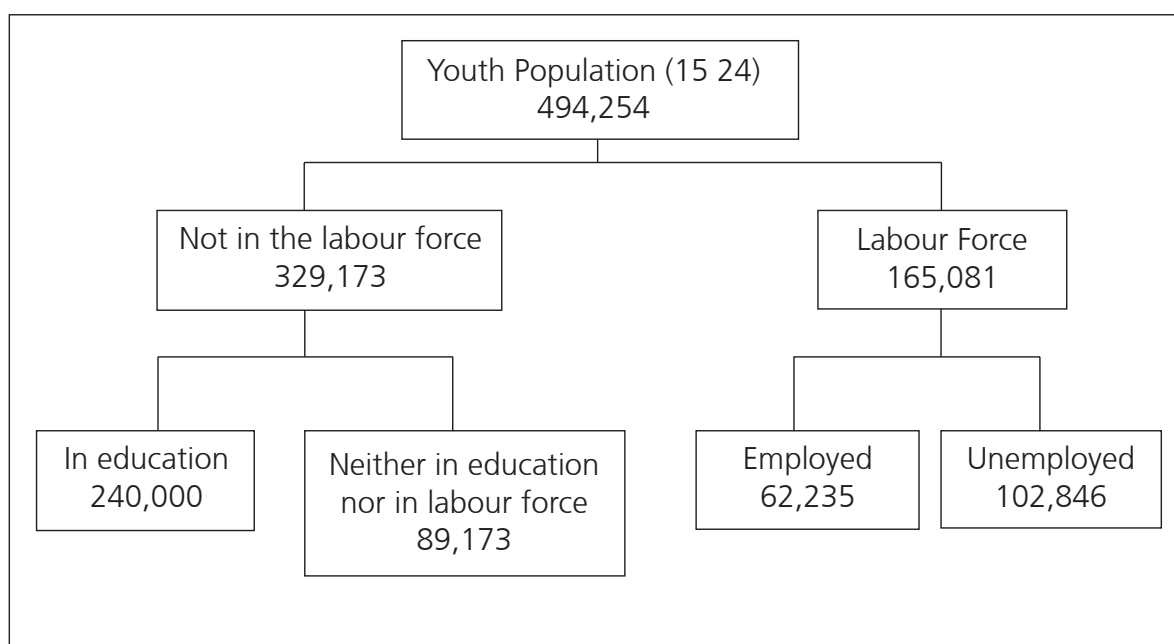
	Ukupno / Total			Muški / Male			Ženski / Female		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Zaposleni / Person in employment	890	859	843	573	541	531	317	318	311
Zaposlenici / Employees	645	625	620	416	401	395	230	224	224
Samozaposlenici / Self-employed	197	176	176	143	122	124	54	53	52
Neplaceni pomažuci članovi / Unpaid family workers	48	58	(48)	(15)	(17)	(13)	33	41	35
Struktura / Structure (%)									
Zaposleni / Person in employment	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Zaposlenici / Employees	72,5	72,8	73,5	72,5	74,2	74,3	72,5	70,3	72,1
Samozaposlenici / Self-employed	22,1	20,5	20,8	24,9	22,6	23,2	17,0	16,7	16,8
Neplaceni pomažuci članovi / Unpaid family workers	5,4	6,8	5,6	(2,6)	(3,1)	(2,4)	10,5	12,9	11,1

All the latest reports indicate that BiH has a huge problem with youth (un)employment. Up to now, only a few studies have been seriously conducted (some of them issued by UNDP¹⁰ Sarajevo 2000 and CISP, the Council of Ministers of BiH, Commission for

the Coordination of Youth Issues in BiH, December 2006.)

From the CISP study¹¹, the graph below shows that more than 48% of the youth population were still in the education process, but 27% of them were neither employed or in education.

Graph 2



¹⁰ For more details please see at www.undp.ba / NHDR of 2000

¹¹ Source: Study on Youth Employment in BiH, CISP-Comitato Internazionale Per Lo Sviluppo dei Popoli, Council of Ministers of BiH, Commission for the Coordination of Youth Issues in BiH, December 2006

2.2.2 Employment Policies and Labour Market Institutions

2.2.2.1 Labour Market Institutions

The Public Employment Services of BiH consist of the State Employment Agency of BiH, the Labour and Employment Agency of the Federation (LEAF), the Employment Agency of the RS and the Employment Agency of Brcko District. Apart from that, LEAF has one employment agency in each Canton and 74 municipal employment bureaus. The Employment Agency of the RS is organised into 6 regional offices and 63 municipal employment bureaus. The SEA of BiH is responsible for international representing, signing of international agreements and monitoring the implementation of international labour standards and programmes that are countrywide in scope. Entities Employment Services are mainly responsible for job brokerage, implementation of active labour market programmes, dissemination of labour market information and delivering of unemployment benefit, but on different levels of authorities, like cantonal level or municipal level.

The revenue structure of the employment services mainly comes from wage contributions where the lowest revenue is about 87 KM (43 euros) per registered unemployed (in the RS) and the highest is in Canton Sarajevo with 560 KM (283 euros) per registered unemployed. On average, the available financial resource per registered unemployed person in BiH is 213 KM or US\$149, e.g. four times lower than the amount spent in Croatia or Montenegro.¹²

The expenditure of employment services consists of administrative costs, unemployment benefit and active measures. The ratio of front-line staff to the total personnel of the employment services varies widely through-

out the country with an average of 52% in FBiH and 67% in the RS.

In BiH the staff to unemployed ratio is 1:1,100 which is quite unfavourable in comparison with the ratios in other countries in region. Also, in BiH there are a few private employment agencies, mostly specialised in searching for adequate employees for their client employers.

Every registered unemployed person has health insurance. The employment service estimates that 30-40% of unemployed people are registered only to have access to health insurance and that as many as 50% of registered unemployed are in reality not actively seeking a job. About 60% of working time employment service staff spend most of their time registering the unemployed and providing basic information to them.

Despite the fact that employment services do not formally accept reform processes and perform as active players in different projects, they are still inefficient and slow, compared to the real needs of unemployed to answer the real challenges of the labour market in the current business environment.

2.2.2.2 Active labour market policies

Active labour market policies are aimed at reducing labour market imperfections and justifying when they are geared to alleviation inequalities and social exclusion through better integration of job seekers and workers in the labour market and through fairer income distribution.¹³ As we mentioned in the text above, revenues of Employment Agencies have to cover administrative costs and expenditures for unemployment benefit.

Allocation for active labour market programmes is residual. According to this, the budget is modest and represents less than 0.3% of the BiH GDP.

¹² Source: Employment Policy Review Bosnia and Herzegovina, ILO, Council of Europe issued 2009

¹³ ILO

Active labour market measures could be grouped as follows:

1. Loans to companies for job creation programmes (FBiH). These loans amounted to 8.5 million KM (4.4 million euros) for 68 borrowers in 2006 and are expected to create more than 500 new jobs. In the RS more than 200 million KM (more than 100 million euros) of loans was distributed to businesses with the precondition that they employed new workers in last 4 years. Results are very poor and the goals are not achieved.

2. Employment subsidies are the most common type of active labour market measures. They tend to reduce the costs of hiring for firms. Participants are mainly young, highly educated persons, workers with disabilities, older workers or demobilised soldiers. It also includes training components. During 2006 such measures created 4,198 jobs for an overall expenditure of 12 million KM (6 million euros) in both entities.

In the RS the employment bureau, with a budget of 2 million KM (1 million euros) every year, covers the cost of insurance and provides a small amount for interim schemes for 9 or 12 months, for young graduates under 30 years of age employed mainly by the government. In the Brcko District, the bureau co-finances the wage of newly-recruited workers from the employment register for 12 months.

3. The World Bank has implemented SESP programmes in both entities with a mix of employment services, such as counselling, training, labour market training, employment subsidies and self-employment assistance. This programme is aimed at the needs of long-term unemployed persons.

Employment counselling, vocational guidance and job-search assistance in BiH appears to be limited by the huge number of individu-

als registered with the employment services, and to the lack of skills and training opportunities of the staff of the Employment Agencies.

Besides the fact that BiH has spent significant resources on loans and grant programmes it seems that only a limited number of participants have had benefit.

From another side, employment programmes for persons with disabilities are not developed enough, bearing in mind that BiH is a post-war country with a huge number of invalids.

Only 1 million KM (500,000 euros) was implemented in FBiH during 2006 for such specific needs. In the RS private employers could choose between the hiring of a person with disabilities (1 in every 50 employees) and the payment of an additional contribution of 2% on the salaries of existing workers. Public companies and institutions in the RS have the obligation to employ 1 person with disabilities in every 50 workers.

If we compare employment measured for young people, it seems that policy only encourages young people with a university degree. Also, active labour market policies for individuals with a low level of education, displaced persons, refugees and the Roma population are slowly becoming a part of reality.

As a part of active measures, the Employment Bureau of the RS implemented a project for the employment of the Roma population during 2009. The project was not generally successful. Only 18 participants passed the project implementation and found a job. Some of the reasons for this were: the low level of qualifications; the fact that most of the Roma population do not register at the employment bureau; the project grant for employment was low; etc. The same project has continued during 2011 with a higher amount of budget¹⁴, but it is still underway.

¹⁴ Source Employment Bureau of the RS, 25.12.2010., web portal

2.2.2.3 Passive Labour Market Policies

In BiH these comprise social insurance schemes funded from payroll contributions and programmes funded from general revenues. The social insurance system provides pensions, unemployment benefit and health insurance. In the RS the system also provides child allowances and maternity benefit. Programmes funded from general revenues provide benefits for war veterans and surviving families, social protection and, in FBiH, child and maternity benefit.

Unemployment benefit

An unemployed person is obliged to report to the employment office every 30 days. Benefits will terminate in cases when the beneficiary finds a job, does not appear to report after 30 days or refuses to report upon call, refuses a job offer that is adequate for his or her qualifications, or is found to be working in the informal economy.

In FBiH, unemployment benefit is equivalent to 3 months' wages for an insurance period from 8 months to 8 years, rising gradually to 24 months for service longer than 35 years. The unemployment benefit replacement rate is a uniform 40% of the average net wage paid in the FBiH in the previous 3 months, irrespective of the number of years in service. In the RS, benefits can be received for 3 months for an insurance period of up to 5 years, rising to 12 months for an insurance period of more than 25 years. The unemployment benefit amounts to 35-40% of the individual's average salary over the preceding 3 months for those with 10 or more years of insurance.

Generally, benefit coverage in BiH is lower than in neighbouring countries.

Early retirement

Both entities allow early retirement for certain categories of workers or for persons with at

least 40 years of contributions. It is possible at 60 years of age for men and 55 for women. Individuals employed in arduous occupations or war veterans are entitled to bonuses on their insurance period e.g. 12 months are counted as 18-24 months.

Both pension funds in BiH encountered difficulties in collecting funds for the payment of pensions.

There are several important reasons for this:

- The economic crisis and the reduced number of insured – employed persons caused the reduction in revenues that are created on the basis of contributions paid to BiH pension funds for employed persons;
- The number of pensioners has grown constantly, mainly because governments give that benefit to the certain categories of people.

In 2004, the pension system in FBiH had 292,200 beneficiaries and 466,000 contributors with a system dependency ratio of 0.63. In the RS the ratio was 0.6, with 174,000 beneficiaries and 294,000 contributors. The average pension was 184 KM, while the poverty line was set at 185 KM per month.

Data for 2010, for both pension funds in BiH, show that the number of retirements increased, compared to a decreasing number of employees. The average number of pensioners in BiH in 2010 was 587,600 persons, which is an increase of 4.2% compared to 2009. In the same period the average number of contributors that have paid contributions to Pension Funds decreased by 1.3% in FBiH and by 4.2% in the RS. The ratio between the numbers of pensioners and employed persons is almost 1:1.

Related to that, an average pension in BiH represents only 42% of an average salary and it was 1% lower in 2010 than in 2009. The minimal pensions in both BiH entities in 2010 remained the same as in 2008: 296 KM (equal to 150 euros) in FBiH and 160 KM (equal to 80 euros) in the RS.

Both pension funds in BiH encountered difficulties in collecting funds for the payment of pensions and the governments have to make significant contributions to ensure that pensions will be paid every month.

Even before the economic crisis, the funding sources based on the inter-generation solidarity system (ongoing funding) were limited and insufficient. The economic crisis just contributed to the worsening of the situation in the pension system, as the already low base for the payment of pensions was additionally reduced.

Social welfare

Social transfers financed through general revenues amount to 4% of GDP, where war veteran's benefits account for about 2/3 of the total. Social transfers have had only a modest impact on poverty alleviation. Military war beneficiaries and survivor benefits for family members are financed by the Ministry of Veteran Protection in the FBiH and the Ministry of Labour and Veteran-Invalid Protection in the RS. Some municipalities and cantons also additionally co-finance benefits to these categories. In the table below we can see those persons with different social and protective needs aged 27-45, representing the highest number of social welfare beneficiaries for 2010 in BiH.

Table 5.

Kategorija korisnika Category of beneficiary		Starost / Age						
		18 - 21	22 - 26	27 - 45	46 - 59	60 - 65	65+	
Ostala lica u stanju socijalne zaštite Other persons in need of social services	svega	4.682	6.263	12.713	14.437	11.449	9.509	all
	muški	2.285	2.769	5.498	7.660	6.060	4.865	males
	ženski	2.397	3.494	7.215	6.777	5.389	4.644	females
Korisnici humanitarne pomoći Beneficiaries of humanitarian aid	svega	858	1.159	2.083	2.159	2.779	3.038	all
	muški	264	385	693	748	878	1.297	males
	ženski	594	774	1.390	1.411	1.901	1.741	females
LICA U STANJU RAZLIČITIH SOCIJALNO-ZAŠTITNIH POTREBA PERSONS IN DIFFERENT SOCIAL AND PROTECTIVE NEEDS	svega	25.267	28.565	54.982	45.668	25.810	38.208	all
	muški	12.882	15.348	33.933	19.610	10.545	18.552	males
	ženski	12.385	13.217	21.059	26.058	15.265	19.656	females
Sa teškim stambenim prilikama With serious housing problems	svega	640	1.502	3.188	2.901	2.330	1.547	all
	muški	308	804	1.382	1.405	1.037	724	males
	ženski	332	698	1.806	1.496	1.293	823	females
Vratila se sa izdržavanja kazne Returned from imprisonment	svega	14	46	110	61	16	7	all
	muški	12	39	96	51	15	7	males
	ženski	2	7	14	10	1	0	females
Stradala u elementarnim nepogodama Suffered in natural disasters	svega	47	26	69	49	26	30	all
	muški	33	9	41	30	8	12	males
	ženski	14	17	28	19	18	18	females
Civilne žrtve rata Civil victims if war	svega	247	345	725	837	562	488	all
	muški	167	199	380	429	311	285	males
	ženski	80	146	345	408	251	203	females
Članovi porodice civilnih žrtava rata Members of family of civilian victims of war	svega	300	378	715	1.044	838	864	all
	muški	137	190	308	406	323	277	males
	ženski	163	188	407	638	515	587	females
Kojima su potrebne usluge socijalnog rada In need of social welfare services	svega	24.019	26.268	50.175	40.776	22.038	35.272	all
	muški	12.226	14.107	31.716	17.289	8.851	17.247	males
	ženski	11.793	12.161	18.459	23.487	13.187	18.025	females
BEZ SPECIFIČNE KATEGORIJE WITHOUT SPECIFIC CATEGORY	svega	1.342	1.900	3.875	4.125	2.367	3.617	all
	muški	724	957	1.658	1.854	940	1.572	males
	ženski	618	943	2.217	2.271	1.427	2.045	females

Source: Agency for Statistics of BiH, May 2010, Thematic Bulletin, Social Welfare

2.2.3 Socio/Economic Relations

Tripartism spreads gradually even in BiH, but the relation system between workers and the state still stays undetermined and representativeness of social partners is still in question. From one side, membership of trade unions is still mainly concentrated in the public sector and the privatised sector, where privatisation was done by mass privatisation, although its membership trend is decreasing in this sector. From another side, there is low level of Trade Union organisation in the private sector, where there is a concentration of employers' associations. According to this, the employers' association and trade unions represent different segments of the labour market.¹⁵

The Economic Social Councils (ESCs)

The councils have emerged as the venue for tripartite collective bargaining and discussion of economic and social trends on the labour market in BiH. The ESCs convene government, trade unions and employers' associations. Tripartism is now benefiting from more representative independent and private sector employers' associations, arising from the growth of a new and mostly small and medium-sized private sector.

Both Entities have formed Economic Social Councils, including Brcko District, and preparations are under way for the creation of such a body at the State level. Tripartite bargaining is being strengthened through the Entity ESCs, while the creation of a State level Council is still anticipated, despite the fact that proposals that have been made in recent years are still waiting to be adopted by the Council of Ministers of BiH. We could expect

that during 2012 the Council of Ministers of BiH will adopt the last proposed Agreement about ESC on BiH level.

Trade Unions¹⁶

Trade unions in both Entities mainly represent workers employed in the public sector companies and mass-privatised enterprises, as well as civil service employees.

There are two separate trade union confederations in BiH, one in FBiH and another in the RS. But there is also a registered Trade Union of Brcko District.

The Confederation of Trade Unions of Bosnia and Herzegovina was founded on 24 June 2005 in Sarajevo. The main founders are: the Confederation of Independent Trade Unions of BiH, the Confederation of Trade Unions of the RS and the Trade Union of Brcko District BiH.

Employers' associations¹⁷

The Association of Employers BiH (APBiH) consists of the Association of Employers FBiH, the Employers' Confederation of the RS and the Confederation of Female Employers "UNA", Zenica and the Employers Association of Brcko District BiH. The private sector employers' associations have been gathering strength over recent years and are now involved in collective bargaining, but their representativeness remains limited because of the low level of private sector development and growth.

The FBiH Association of Employers (UPFBIH) represents approximately 4,100 private companies that employ around 90,000 workers mainly in Central and Western Bosnia and Herzegovina. The UPFBIH is geographically organised (not

¹⁵ Source: Report No. 32650-BA, Bosnia and Herzegovina Labour Market Update: The Role of Industrial Relations ,WB, December 2005

¹⁶ Source: Confederation of TU, web site, data base of entity TU, november 2007

¹⁷ Source: Ibidem footnote 14, Employers' Association of BiH, ECRS, EABD, AEFBIH, Union of Employers' Associations of RS, November 2007

by sector or industrial branch), and is a confederation of regional small business associations. It was established in 2002 and accounts for about 2,000 individual members/enterprises, as well as having 14 branch members.

In the RS, the Employers' Confederation of the RS (SPRS) represents mainly private small and medium enterprises (SMEs) and voucher-privatised former state-owned companies. Founded in September 2000, the SPRS is small compared to the UPFBiH and, while it represents more than 8,000 companies, only 180 companies¹⁸ are membership fee-paying members and they employ only 6,000 people. Its member companies are mostly active in manufacturing sectors (such as wood, paper, food and drinks, and the metal industry) as well as information technology, services, construction and wholesale sectors.

The Union of Employers' Associations of the RS (UUPRS) was established in 2004 and represents the members of 13 groups, mainly voucher-privatised enterprises, as well as companies with majority state ownership organised through a chamber system. As a signatory member for the previous the GCA, the Chamber of Commerce of the RS participated as a representative of employer's side, so one of the main reasons why the CCRS established this Union was to keep more influence in collective bargaining and, from another, they represent enough enterprises, no matter what structure they consist of.¹⁹

Social dialogue at state/entity/local level

International experience with respect to the systems of different industrial relations provides only suggestive guidance as to what level and kind of collective bargaining could be more appropriate for BiH. However, Bosnia and Herzegovina's economic transition is far

from complete and substantial enterprise sector adjustment still needs to take place. This suggests that the tripartite parties could be best served by allowing for more rather than less flexibility on the labour market, which would promote better outcomes.

The characteristics of the industrial relations system nevertheless change over time, both *de facto* and also because existing arrangements are being renegotiated. There is an emerging group of companies in the private sector and new employers' associations. There are also changes in the trade union structure and, together with higher private sector participation, they have initiated negotiations for new general collective agreements to replace those agreed in 2000. In the FBiH the social partners agreed a new GCA in August 2005 and in the RS in the autumn of 2007. In Brcko District social partners the GCA signed in 2000 is still valid, including some amendments from 2004. Tripartite bargaining is being strengthened through the Entity ESCs, while the creation of a State level Council is still in the pipeline.

Employers are free to form or join any employers' association, and employees are free to form or join any union. However, "tripartism" is underdeveloped, partly because of the embryonic state of the conventional private sector, which mainly consists of small and micro enterprises, established with private capital. Collective bargaining is still dominated by the government and by worker representatives from the formal/public sector, while there is low or minimal private employer representation.

2.2.4 Conclusions/Recommendations

Unemployment was and still is one of the main problems in Bosnia and Herzegovina in last 16 years of Bosnian post-war history, but it has never become a real issue for discussion in the country.

¹⁸ Source: database of ECRS, November 2007

¹⁹ Source: database of Union of Employers' Associations of the RS, November 2007

Probably the highest unemployment rate in Europe for decades, a bad business environment, huge foreign trade deficit and extremely low level of foreign investments was not a enough good reason for the Bosnian society to put these issues into a focus of discussion.

There are several reasons for this, but one is predominant. It is a fact that post-war BiH was driven mainly by international community requests and leadership than by real needs of the country and her citizens.

BiH official stages in the last 16 years have been as follows:

- a) A stage of emergency help
- b) A stage of refugee return
- c) A stage of strengthening of institutions, and now
- d) A stage of constitutional reforms

A careful reader will notice that BiH has never been in a stage where the economy, employment and economic development have been at the top of the agenda. This is the result, in my opinion, of the two completely wrong postulates which were implemented on post war and transitional BiH.

The first originates from the western way of thinking, which is not applicable everywhere, and said: What is important is the establishment of governmental and other social systems, housing and recovery of infrastructure. Businesses will be revitalised by themselves. This is completely wrong if you take into account that we are talking about businesses which were part of a war economy and which predominantly come from the socialist system. This resulted in the loss of tens of thousands of working places in a forced privatisation process, without benefit to anybody except a few domestic tycoons.

The second comes from the mind of a few international bureaucrats supported partly by Bosnian politicians, and this is: A strong state and government will build a strong economy. This is false, of course. It is true that only a strong and healthy economy could create a strong state and society.

The result of this wrong thinking and acting in the past years in Bosnia is a lack of performance, and an inefficient and ineffective governmental and bureaucratic structure, which spends more than 40% of all budgets in BiH just on their salaries.

The costs of the administration and functional complexity of bureaucratic procedures is raising costs of operations for Bosnian business to a level where they are neither competitive on the international market nor on the domestic one. This is a reason why in Bosnia you will hardly find any well-known international industrial company operating, and this is a reason why Bosnia is at the bottom when we talk about foreign direct investments.

Regarding the employment and general economic situation, 2011 seems to be worse than 2010. Governments on all levels have raised the level of debt financing by 50% compared to recent years. Companies which survived the first wave of global economic crises are now suffering from low demand, lost markets, big debts and closed doors of the banks.

The BiH Government is not constituted yet and MMF is not ready to continue with a stand-by agreement. Foreign direct investments are at the lowest level since 1996 and domestic investors are not investing any money in the real economy. Pension funds and health care funds are empty and surviving on monthly bases through short term commercial bank financing. The process of European integration has stopped and all reforms are on stand-by because politicians are waiting for the next local elections in 2012.

Nobody is ready to take any serious step or measure regarding unemployment and the bad economic situation. The country is stacked in the past and almost all social energy is focused not on solving the problems, but on the question of who is more guilty.

More and more people are leaving the country and working informally in western countries or on the black labour market which was suppressed by a low level of taxes. Financial burdens on salaries are starting to grow again, as governments are putting more and more financial pressure on companies. Strikes in companies and the public utility sector are becoming an everyday reality.

For 2012 prospects are bad, also. As mentioned before, the state government is not established in spite of the fact that elections were a year ago, local elections are coming, a second wave of economic crises will hit the country in spring next year, the economy is weakening every day and social funds will be empty.

Where is there a way out of this situation?

First of all this must lie in changing the way of thinking of the people who still live in Bosnia and Herzegovina. Empty pockets, hunger and loss of hope and belief in the existing system will force the people to start to think about the real problems instead of thinking about who is to blame for the war, and who hates or who loves whom. The first and most necessary change has to happen in people's minds. A job, existence, family and personal future have to become a priority.

When that has happened, future steps could be:

- a) Reforms in the educational system (obligatory secondary education, vocational training, long life learning, entrepreneurship learning, innovative and problem-solving oriented learning)
- b) A cut in public spending (mainly administration costs and jobs) and orientation of the budgets towards development (more money for education, job creating, innovations, new technologies, energy efficiency and environment protection)
- c) Tax reform (lower tax and contributions on labour, high taxes on the richest people, low VAT on ordinary items, high VAT on luxury, high taxes on alcohol and tobacco, taxes on financial transactions, tax exemptions for investments in the real economy – creation of new value)
- d) Business environment reform (simplification of procedures, processes, and paperwork, and reduction of response time)
- e) Pension and health care reform (pension, have to be earned, not donated, donations are budget costs, private life and health insurance must be obligatory, but tax exempt and stimulated)
- f) Social welfare reform (social benefits exclusively for people in real social need)

It seems too complicated, too long and too complex? Yes indeed. But there are no simple solutions for complicated problems.

The trouble in society, which we can see in BiH today and will see in the near future, is a really complicated problem.

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2.3 The Bulgarian Case: Employment Policies under Budget Austerity in Times of Crisis

Lyuben Tomev

Abstract

The labour market in Bulgaria is strongly influenced by fundamental factors such as the demographic crisis, the disparity between labour force supply and demand and the expanding grey economy. The changing economic situation also has a negative impact – the global economic crisis, the sharp decrease of foreign direct investments and the specificities of internal investment activity. Employment dropped by 4-5 percentage points, which means a loss of 460,000 jobs. The manufacturing industry and construction, men, youth and low-skilled workers were most affected by the crisis. Along with the increasing unemployment rate it should be noted that the quality of unemployment is also changing: increasing relative share of long-term unemployed, of people accumulating several vulnerability risks and low labour market competitiveness in general. The “economy of supply” underpins the fiscal and tax policies and this principle only reinforces the labour market problems, instead of generating employment. The budget deficit, though at relatively low levels, strongly restricted the internal funding of active labour market policies, which resulted in considerable restructuring of the funding sources and orientation to the European Social Fund, and more specifically Operational Programme “Human Resources Development”. The passive labour market measures are being implemented in an unstable fiscal environment, causing the growing deficit in the Unemployment Fund. The labour market and the employment policies attract the special attention of social partners, civil society and academia. This fact, together with the expertise available in the relevant institutions and the increased opportunities to use European Funds, gives grounds to expect improvement. Still, the expectations are that, due to its serious structural weaknesses, the recovery of the labour market in Bulgaria will be slower than the recovery of the economy and will mainly depend on the will of the government to stimulate the process by making changes to its social, economic and structural policies.

2.3.1 Labour Market Situation (Developments of the Latest Years: 2006 – 2011)

The labour market situation in the past 6 years has been influenced by several factors, some of which are fundamental and some are situational. As a rule the fundamental factors have a long-term impact, whereas the situational ones produce a mid-term and short-term effect.

FUNDAMENTAL FACTORS

The demographic crisis started in the late 80s, but became especially serious in the tran-

sition period. The contributing factors were the sharply increased emigration flow, mostly of well-educated and qualified young people, and the delayed processes of transformation and restructuring of the national economy, which had a negative effect on the living standards of the population and hence on its reproductive patterns. This had a lasting influence on the quantitative and qualitative characteristics of the workforce entering the labour market.

The disparity between labour demand and supply is growing, which **makes the Bulgarian labour market structurally weak**, with high relative shares of discouraged

workers, long-term unemployed, and contingents accumulating several vulnerability factors, which results in low competitiveness and adaptability of the labour force to the changing labour market. These phenomena are also brought about by the shortcomings related to the education reform. On the one hand, a relatively high early school drop-out rate is being sustained, and on the other – there is a structural mismatch between the demanded and supplied professions and practical skills.

Despite all mantras and interventions aimed at reducing **the grey economy and grey employment in particular**, they have remained the most sustainable labour market segment for the past 20 years. This fact reinforces the indeterminate nature of the actual economic processes and makes it difficult for them to be measured using adequate statistical tools and indicators. The grey labour market does not only have a competitive advantage as compared to the official labour markets (primary and secondary) but it is to a great extent integrated in the regular markets and, depending on the economic situation, able to absorb or divert workforce groups from or to them.

SITUATIONAL FACTORS

The influx of foreign direct investments (FDI) is one of the key factors fostering job creation and influencing the employment rate in general. In the period up to 2008 the FDI grew consistently and drove economic growth, development and employment in the industry, trade and financial sectors. FDI were attracted by both existing niches in those sectors, and by the low labour costs, which ensured relatively fast returns and high profits (sewing industry, banks). The strong dependence of the Bulgarian economy on FDI and the sharp decline of FDI after 2008 is one of the main causes of the drop in employment.

Internal investment activity is a situational factor influenced by both the cyclic

nature of economy and the business environment. Long before the global financial crisis affected Bulgaria, there were clear internal indicators that the Bulgarian economy was “overheating” (ESC/2/006/2009, p.13). For a long period of time the gross fixed capital formation grew faster than the GDP. What is more, the investments were not used to fund the technical, technological and organisational restructuring of the real sector, but were mostly directed towards the establishment of non-production sites. Thus employment in the construction sector sky-rocketed but the ensuing reversal was even sharper after the collapse of the real estate market. The unused opportunities for technological modernisation, however, left their mark – this is a fact that definitely slows down the recovery of the labour market after the crisis.

The global financial crisis was triggered by the bursting housing bubble and started from the banking sector in the US and Europe, but in Bulgaria it mostly affected (with an expected one year time lag) the industry sector. The decreasing orders and the sharp decline in goods produced necessitated staff reductions. To survive, many companies started cutting jobs, predominantly laying off the low-skilled workers and employees, while others were forced to shift to other products and markets. The concurrent budget expenditure restrictions as an anti-crisis measure minimized the options for mitigating the negative effects for the labour market and for sustaining a reasonable rate of employment. No sufficient measures were taken to stimulate domestic demand and investment, or to retain the existing jobs and create new ones.

EMPLOYMENT TRENDS

The combined impact of the above factors resulted in the emergence of two employment trends:

- consistent growth in the period up to 2008 inclusive
- a sharp downturn from 2009 on.

The data shown in Table 1 indicates that in the period 2006-2008 the number of employed aged 15 and above increased by 8.1% and those in the 15-64 and 20-64 age groups by 7.6% and 7.7%, respectively. This demonstrates that, in the period of growing workforce demand, the shortages were filled not so much by young workers entering the labour market, but by employing people above the

working age. The relative increase of those employed in the 15-24 age group was by 9%, whereas in the over 64 age group it was 42%. The total increase in the number of employed people for the two years amounted to 250 thousand and the employment quotient grew by 4-5 percentage points. In fact, in the decade after 2000 this was the period when employment registered its highest increase. In parallel with the increasing employment rate, the real GDP grew dynamically by 5-6% per year and the increase of the mean wage reached record levels of 10.2% in 2007 and 12.6% in 2008.

Table 1: Number of employed (in thousands) and employment quotient in the period 2006-2011

Indicators	2006	2007	2008	2009	2010	2011 Q1	2011 Q2
Employed aged 15 or above	3110.0	3252.6	3360.7	3253.6	3052.8	2890.7	2934.1
Employed aged 15-64	3071.7	3208.8	3306.2	3204.8	3010.4	2849.4	2895.5
Employed aged 20-64	3041.9	3180.9	3275.8	3178.6	2993.9	2840.7	2884.6
R (15+)	46.7	49.0	50.8	49.4	46.7	44.7	45.3
R (15-64)	58.6	61.7	64.0	62.6	59.7	57.3	58.2
R (20-64)	65.1	68.4	70.7	68.8	65.4	62.6	63.4

Source: National Statistical Institute: Labour Force Survey

Since 2009 the number of employed people has declined rapidly (with the exception of the second quarter of 2011 due to seasonal employment) and by the end of the year the decrease was by 426,000. In fact the current employment rate is at the 2004 levels. The following parallel trends could be outlined in this period of declining employment:

- in 2009 the GDP dropped by 5.5% with this sharp decline being compensated in the second quarter of 2010, since when the annual statistical data has shown a consistent growth in five consecutive quarters varying from 0.3 to 3.1% annually.
- though at a slower pace, real wages continued to grow – in 2009 they increased

by 8.7% and in 2010 by 3.7%, but this was almost entirely due to the structural transformations in employment (laying off of low-paid and low-skilled workers), a trend which was sustained in the first two quarters of 2011.

This comparative analysis shows that the crisis strongly affected the labour market, especially in terms of declining employment, whereas its impact on the labour costs was less pronounced, given the overall tendency for the employers to freeze wages (with some exceptions of raising or lowering wages depending on the situation in the particular branch). The declining employment and the

structural transformations in it resulted in increased labour productivity that has been growing for six consecutive quarters (from the beginning of 2010 to the middle of 2011). The parallel increase of GDP indicates that the economy is recovering and the crisis is gradually being overcome, but this does not apply to the labour market, where the problems are in fact deepening.

SECTORAL AND STRUCTURAL TRANSFORMATIONS IN EMPLOYMENT

For a period of two and a half years after the crisis started the main blow to employment was sustained by industry – the decline in this sector in absolute numbers was by 309,000 people (-25.3%). In the service sector the number of jobs decreased by 81,000 (-4.3%), and in agriculture employment went down by 37,000 people (-14.7%).

Table 2: Number of employed (in thousands) by economic activity for the period 2008-2011

Economic activities	2008	2009	2010	2011 Q1	2011 Q2
Total	3360.7	3253.6	3052.8	2890.7	2934.1
Agriculture, forestry and fishery	251.2	230.7	208.1	177.8	214.2
Mining industry	35.0	34.0	33.0	30.0	25.8
Manufacturing	769.7	713.9	637.4	591.8	587.6
Generation and distribution of electricity, heating and gas	42.1	41.2	42.7	45.1	44.9
Water supply; sewage services, waste collection	37.0	34.9	33.6	40.4	40.3
Construction	340.3	322.5	268.5	221.0	216.1
Trade; car and motorcycle repairs	530.0	527.9	531.1	528.8	523.4
Transport, storage and postage	189.5	187.6	177.3	172.7	173.6
Hospitality industry	168.8	168.7	159.7	151.9	160.9
Creation and dissemination of information and creative products; telecommunications	71.2	70.8	70.3	61.8	65.2
Financial and insurance services	57.0	61.5	52.7	46.8	51.5
Real estate services	14.1	13.1	10.1	7.5	9.9
Professional activities and research	83.9	87.7	84.8	84.3	80.2
Administrative and supporting activities	73.9	72.4	76.0	65.2	82.1
Government services	235.3	235.1	226.2	222.3	222.0
Education	205.6	191.2	184.4	192.6	193.1
Human medicine and social work	158.1	164.1	159.4	156.6	150.0
Culture, sports, entertainment	43.8	40.8	39.0	39.0	38.4
Other	54.1	55.4	58.4	55.2	54.9

Source: National Statistical Institute, Labour Force Survey

The data in Table 2 shows that the job cuts during the crisis were asymmetrical with the manufacturing and construction sector amounting to about 72% of the employment decline, while the decrease in the other economic sectors was significantly lower and there was even

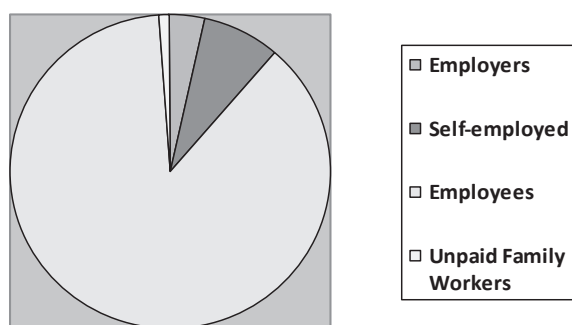
an increase of between 3 to 8% in three sectors (energy, water supply and sewerage, and administrative and supporting activities).

The breakdown by occupation and qualification reveals that the employment drop is the highest for the professions that do not

require special qualifications (-35.6%). This is a natural development – the first to be laid off in a crisis situation are the low-skilled workers. The decline in the group of qualified manufacturing workers and machine workers is considerably lower (about -20%), while employment among professionals has increased by more than 11%.

The status structure of employment did not register significant changes, because the pace of decline in the group of employers, self-employed and employees is more or less the same: -11.1%, -15.0% and -12.6% respectively.

Chart 1: Distribution of people employed by employment status (Q2 of 2011)



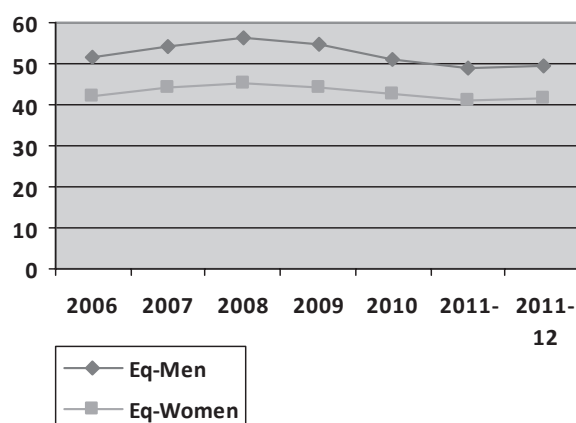
Source: National Statistical Institute: Labour Force Survey.

As of the middle of 2011 87.6% of employed people were hired workers, 7.5% were self-employed, 3.7% were employers and a little more than 1% were unpaid family workers (Chart 1). The breakdown by gender and employment status reveals some specific details. The share of women in the employers' group and the group of self-employed is significantly lower compared to the share of men – only 30.7% of employers and 37.9% of self-employed are women. In the

group of employees the relative share of women is almost equal to that of men (49.3%), whereas in the group of unpaid family workers women predominate (60.2%).

In general the employment of men is higher by about 8-10 percentage points, but in the past two and a half years the gap has been closing, which shows that the decline in employment goes in parallel with gender divergence.(Chart 2).

Chart 2: Employment quotients by gender for the period 2006- Q2 of 2011



UNEMPLOYMENT TRENDS

The data from the Labour Force Survey (Table 3) indicates a dynamic change in unemployment. After 8 years of consistent decline, unemployment went down to 5.6%: a level that the experts define as balanced (healthy) for Bulgaria in macroeconomic terms. The recession resulted in the first massive layoffs in the beginning of 2009, which increased the unemployment quotient to 6.8%. The trend was reinforced in 2010 when the numbers rose sharply to 10.2% to reach even higher levels in the first two quarters of 2011: 12.0% and 11.2% respectively.

Table 3: Unemployed aged 15 or above (in thousands) and unemployment quotients for the period 2006-2011

Indicators	2006	2007	2008	2009	2010	2011 Q1	2011 Q2
Unemployed aged 15 and above	305.7	240.2	199.7	238.0	348.0	395.5	369.8
Unemployment quotients (percentages)							
Total:	9.0	6.9	5.6	6.8	10.2	12.0	11.2
By gender:	8.6	6.5	5.5	7.0	10.9	13.2	12.2
men	9.3	7.3	5.8	6.6	9.5	10.8	10.0
women							
By age:	19.5	15.1	12.7	16.2	23.2	29.1	25.3
15-24	9.2	6.7	5.7	6.9	11.4	15.3	13.0
25-34	7.5	5.7	4.3	5.5	8.1	8.9	9.3
35-44	7.6	5.9	4.9	5.8	8.7	10.2	9.4
45-54	7.4	6.4	5.2	5.9	8.9	9.1	9.0
55 and above							

Source: National Statistical Institute: Labour Force Survey

Several characteristic features of the dynamics and structure of unemployment can be outlined:

First. The data in Table 3 shows that in the period of increased labour demand (2006-2008) the construction and industry sectors recruited mostly unemployed men, which is the reason why the unemployment quotient of men is lower compared to that of women. In the preceding years this ratio was reversed. The crisis, however, effected rapid changes and the sharp decline in the above two sectors of the national economy resulted in a large number of male workers losing their jobs. Unemployment in the male group for the period 2009-2011 is significantly higher than unemployment in the group of women – by more than 2 percentage points.

Second. The problem of youth unemployment came to the fore once again, following a period when Bulgaria registered positive trends (in 2008 it dropped to 12.7%). In the course of only two years, though, the unemployment quotient for the 15-24 age group has doubled and it was close to 30% at the

beginning of 2011. Undoubtedly the crisis has been especially detrimental to young people, who find it harder to get a job after leaving high-school or graduating from university.

Third. The comparison of the employment and unemployment data shows drastic quantitative discrepancies between the employment outflow and the unemployment inflow. In two and half years employment has decreased by 426,000 people, while unemployment has increased by only 170,000. Notwithstanding the arbitrariness of such a quantitative comparison, it should be noted that the discrepancy is considerable (more than 2.5 times). There are dynamic processes taking place involving significant transitions both in terms of scope and frequency in the labour force status, and in the economic activity of the population.

Fourth. There are several hypotheses that could explain the phenomenon: lower numbers of unemployed register as such, increasing grey employment, higher emigration flow and, last but not least, growing numbers of discouraged workers. All of the above hypotheses find justification in the results of different surveys:

- according to data published by the Institute for Trade Union and Social Studies (ITUSS) of CITUB, about 24% of the unemployed do not register with the Labour Offices for a number of reasons (Tomov, Lyuben, p.81);
- in a situation of crisis the informal economy expands rapidly and some estimates show that it exceeds the current pessimistic forecasts of 35% of GDP (Association of Industrial Capital in Bulgaria, p.11);
- NSI data on the registered emigration shows that the average annual number of emigrants amounted to 2-3 thousand people before 2009 as compared to 2009, when it sharply increased to 19,039, and reached 27,708 people in 2010 (NSI, Population, web site);
- the number of discouraged people grew from 149,900 in 2008 to 232,700 people in the second quarter of 2011 (NSI, Labour Market, web site).

Fifth. Only 7.4% of the unemployment cases could be defined as frictional, i.e. related to unsatisfactory work conditions and a desire to change the employer. The predominant percentage (43.1%) is unemployment due to layoffs and job cuts and 19.2% result from finished temporary and seasonal work. First time job-seekers are also in a difficult situation: the relative share of first time job-seekers is 15.3% of all unemployed. Mostly these are young people joining the labour market after finishing school or graduating from university.

Sixth. The qualitative characteristics of the unemployed contingent are deteriorating, which is a clear signal for the low competitiveness of the Bulgarian labour market. Approximately 1/3 of the unemployed have elementary or lower education. The unemployment quotient for people with elementary education is 19.6%, and is 43.1% for people with primary or lower education (2010 data).

Respectively, the employment quotient of this group is extremely low – for people with elementary education it is 20.0%, and it is only 8.5% for those with primary or lower. This in fact means that their chance to enter the primary labour market is slim.

Seventh. The relative share of long-term (12 to 23 months) unemployed grew to 24.3% as a result of the crisis, and the figure for the jobless who have been unemployed for two or more years reached 32.4%, hence a total of more than 56% of the unemployed have to a large extent lost their working habits and skills, which means that additional efforts and funds will be needed for their adaptation and reintegration. The long-term unemployment quotient rose from 2.9% in 2008 to 6.3% in the second quarter of 2011, with the figures being significantly higher for the men (7.0%) as compared to women (5.6%).

Eighth. There are no considerable regional disparities relating to the unemployment quotients (the variation is between 6.8% in the South-West Region to 14.5% in the North-East Region), but the differentiation increases at every lower level. At district level unemployment incidence is lowest in Blagoevgrad (5.8%), Sofia (6.6%) and Stara Zagora (6.7%), and highest in Shumen (28.8%), Razgrad (22.6%) and Smolyan (19.2%). These asymmetric trends bring about the depopulation of entire regions, massive permanent or labour emigration, increased internal mobility resulting in the working population being concentrated in the capital and the big cities and leads to all the negative consequences that follow (demographic, social, infrastructural).

2.3.2 Employment Policies and Labour Market Institutions

The status and dynamics of the development of the labour market are both an indicator, and a consequence of the macroeconomic

processes taking place, because investments, manufacturing and consumption have a direct impact on it. The type of policies implemented and whether they are adequate in terms of economic cyclicity and whether they stimulate employment is of key significance.

FISCAL AND TAX POLICIES

Several Bulgarian governments have pursued a consistent policy aimed at ensuring competitive advantages with a view to attracting foreign investments, counting on such an approach automatically producing more and sustainable economic growth, as well as new and better jobs and a less grey economy.

The policy tools used have been as follows: lowering direct taxes at the expense of indirect ones, reductions in social contributions, especially those related to pensions, artificially maintaining the labour costs low, and liberalisation of the labour legislation.

The results from these policies and policy tools can be illustrated using the following facts and statistical data:

- Bulgaria has the lowest direct taxes in the EU: 10% corporate tax and 10% flat rate individual income tax (without exemptions).
- The direct/indirect taxes ratio is 34.6% in favour of indirect tax revenues, whereas in the EU this figure is only 4.7% in favour of indirect taxation.
- Pension contributions were lowered by 15 percentage points only over the four years from 2006 to 2010 and revenues cover less than half of the pension expenditures.
- The Bulgarian pension system has transformed from a social security system into a tax funded system – a change that has significant negative consequences.
- Bulgaria continues to be the EU country with the lowest income – mean wage was Euro 330 (2010), and the minimum wage has been frozen at Euro 123 for about

three years, resulting in its net value being below the official poverty line.

- The relative share of hired labour compensation in the GDP (as a specific indicator of the labour costs) has been 35-37% in the past three years and it remains one of the lowest in Europe.
- Over a period of only two years (2008-2010) the number of employed dropped by 14.5% or 357,100 jobs less.

Given the overall picture, the decline in foreign direct investments was drastic – more than fivefold over two years. The decreasing inflow of foreign direct investments was not only caused by the investors' conservatism and fear of the crisis. In Bulgaria, a country with the lowest taxes and lowest income, the investors' withdrawal could be attributed to essentially different factors, e.g. excessive red tape, high risk of corruption, poor infrastructure and low quality public services. It is an illusion to think that low taxes are a factor contributing to attracting more foreign investments. This is especially true with regard to the serious and strategic investors.

The tax policy pursued by the government does not promote sustainable employment, but rather reinforces poverty and social inequality.

The policy of low direct and high indirect taxes resulted in a unique tax revenue structure which is a natural burden that affects to a greater extent the low and medium income social groups. This "reversed tax structure" in fact leads to increased poverty and income differentiation instead of contributing to more fair taxation and more solidarity in addressing issues of social inclusion.

The consistent lowering of the pension contributions has shifted the pension system towards performing extraneous tasks – stimulating competitiveness and

combating the grey economy through the establishment of a “favourable business environment”.

The first solidarity and pay-as-you-go pillar of the pension system was seen as a reserve to be used for reducing business costs and creating a more favourable foreign investment climate. The low level of social security has had a negative effect in two aspects – firstly, it has lowered the credibility of the solidarity social security pillar, which has directly resulted in underpayments and increased grey employment; secondly, it has served as a prerequisite for the creation of low-protected jobs and not good quality employment.

EDUCATION POLICY

In 2008 the school system was reformed via the introduction of delegated budgets. The allocation of funds to individual schools is based on unified cost standards and the number of students enrolled. This practice continued in 2009. As a consequence of the reform more than 5,000 school teachers were discharged and a number of schools were closed down – mostly in villages where the schools could not recruit the required number of students.

The optimisation of the school system allowed for a more just and effective spending of funds on the one hand, and on the other – it made it possible to provide additional incentives for the better qualified and busier teachers. Head teachers received more freedom in itemising the delegated budgets as well as in attracting additional funds by implementing or participating in external projects.

At the same time however the unified per-student cost standards in the 2009 budget for school education were reduced by 10%. The amounts remained unchanged in 2010 and 2011 which in practical terms meant that the wages in the school education system were frozen and the chances of improving the school environment were postponed.

The big issue facing school education remains early drop-out. Gradually the number of early drop-outs was reduced from 22% in 2003 to 13.9% in 2010 as a result of two main policies – mandatory and stimulating. The former was based on enforcing the rule of not paying child allowances to parents whose children do not attend school, and the latter involved the provision of school aid free-of-charge for all students up to 7th grade, free snacks, organised school transport, full day school attendance for the students from 1st and 2nd grades whose mother tongue is not Bulgarian. Ultimately, however, the effect is assessed as unsatisfactory.

Early drop-out is one of the main challenges facing the labour market at present, a trend expected to continue in the future when an acute shortage of quality work force is expected.

The introduction of education vouchers could be said to have facilitated progress in the vocational education system. The option of providing education vouchers to unemployed and employed people by force of a decision of the Monitoring Committee of the Operational Programme “Human Resources Development” accelerated programme fund absorption. The Committee also approved the allocation of BGN100 million for projects related to extracurricular activities, BGN30 million for developing remote education methods and BGN8 million for on-the-job internships for school students.

The involvement of business in vocational training and education initiatives could be assessed as insufficient.

On the one hand, the lack of collaboration between the employers and educational institutions is a contributory cause of the divergence of demanded and supplied skills and knowledge, and of the non-existent opportunities for on-the-job training and internships. On the other hand, most companies (especially

small and medium-sized firms) do not pay the necessary attention to staff qualification and consider the training and qualification costs as an additional burden for company budgets. The state cannot be relied upon to be the only driving force in the process, especially given the fact that it is not flexible enough to respond to the dynamically changing circumstances.

SWOT ANALYSIS

The following matrix of strengths, weaknesses, opportunities and threats could be made, based on the analysis of employment trends, government policies and the conclusions derived from it (SWOT analysis):

Strengths	Weaknesses
<ul style="list-style-type: none"> - Completed privatisation and sectoral restructuring, stable macroeconomic environment, currency board, fiscal discipline - Low corporate tax, incentives for job creation and for hiring unemployed workers - Rapid penetration of multinational companies opening new jobs, creating good quality employment and new corporate culture - High expertise in the development of labour market policies, measures and employment programmes - Good social partnership and dialogue relating to the issues of employment and labour market, functioning tripartite cooperation bodies - Completed reform in school education, good quality and high qualification of the teachers - Control over the operation of the licensed vocational training centres and competitive environment - Increased labour force mobility, developed preferences for well-paid, more secure and better jobs 	<ul style="list-style-type: none"> - Increasing demographic problems – low birth rate, aging population, increasing emigration flow - Reduced economic activity, increased number of discouraged workers - Relatively high share of illiteracy and early school drop-outs - High share of grey employment, reinforcing the indeterminate nature of the economy and the lack of clear statistical indicators - Low level of security in the employment status transition (education- employment – unemployment- retirement) - Low level of social security and lack of trust in social security systems - Insufficient involvement of business in the education and professional training of the work force - Structural defects of the labour market – disparities in the labour supply and demand in professional, qualification and regional terms - Poor quality of the road infrastructure limiting commuter options

Opportunities	Threats
<ul style="list-style-type: none"> - Regular monitoring of the effectiveness of the labour market measures applied, social impact assessment - Improving the absorption of European funds and implementation of programmes, reducing fraud and more effective use of the funds - Increasing the internal "flexicurity" - work hours optimisation, work/life balance, remote jobs - Creation of "white" and "green" jobs. development of health and spa tourism and cultural and historical tourism, environmental vegetable production - Lifting the restrictions on accessing the EU labour markets and free movement of labour within the internal European market - Lifelong learning and continuing professional training as a shared responsibility of the state, employers and workers - Enhanced scope of the collective employment agreements and introduction of minimum social standards 	<ul style="list-style-type: none"> - On-going economic crisis, negative impact of global financial instability - Increasing financial instability of the solidarity pension system - Increasing negative demographic trends, brain drain and loss of highly qualified workers - Social dumping, expanding employment in low added value industries and in the grey sector - Insufficient budget funding of the education system, health care system and the labour market measures - Enhancing and deepening poverty, inequality and social exclusion - Unreformed social assistance system and inefficient spending of the funds - Insufficient capacity of the Employment Agency structures - Growing regional disparities in terms of economic profile and labour markets

2.3.3 Active and Passive Labour Market Policies

The dynamic transformations in employment and the main labour market parameters necessitated the implementation of containment measures aimed at both addressing the consequences of, and preventing unemployment. The crisis had serious ramifications in terms of the active labour market measures.

ACTIVE LABOUR MARKET POLICIES

In 2008 and 2009 there was a marked diversification of the active labour market policies (ALMP), measures and programmes. National funding was allocated for 66 programmes and measures in 2008, and in the succeeding year the number increased to 67. Despite the fragmentation, the following measures

and programmes were the largest in scope and funding:

National Programmes:

- "From social benefits to employment";
- "Assistants for people with disabilities";
- "Restoring and protecting the Bulgarian forests";
- "In support of maternity";
- The Beautiful Bulgaria Project.

Measures laid down in the Employment Promotion Act (EPA):

- Encouraging employers to create jobs and hire permanently disabled unemployed persons;
- Incentives for employers to hire permanently disabled unemployed persons for temporary, seasonal or part-time work;

- Stimulating employers to hire unemployed women above 50 and men above 55 ;
- Encouraging employers to create jobs for attaining qualification through internships and/or apprenticeships;
- Employment Agency (EA) organising motivational training and professional qualification training.

The crisis and the deteriorating labour market situation in 2009 made it necessary to develop the following anti-crisis measures: National Programme “New Chance for Employment” (3,000 new jobs created) and paying additional sums to workers and employees transferred to part-time jobs – BGN120 per person for 3 months (the effect being 19,000 retained jobs).

The serious problems with the budget deficit at the end of 2009 and beginning of 2010 necessitated large cuts in the national funding of ALMP. As a result the number of measures and programmes laid down in the National Action Plan For Employment (NAPE) 2010 was reduced to 53 and the focus was put on the following target groups:

- Unemployed youth of up to 29 years of age;
- Discharges people or workers transferred to part-time jobs due to the production squeeze;
- People with disabilities;
- Inactive persons who are willing to find a job, including discouraged people.

The scope of the National Programme “From Social Benefits to Employment” was seriously limited. At the same time new large-scale projects – operations with a duration of several years – were funded under the Operational Programme “Human Resources Development” by the European Social Fund. The most important projects are as follows:

“Development” Intervention: Professional qualification training for unemployed aimed at en-

suring their re-employment. The budget of the grant is BGN250 million until 2012 and provides for professional training for 65,000 unemployed and employment for 52,000 of them.

“Back to Work” Intervention: Training and employment for unemployed in providing good quality child care services for children 1 to 3 years of age. The effect will be double – the parents can go back to work and the unemployed will re-engage in work. The total budget of the grant is BGN64 million until 2012 and 8,500 unemployed will be trained (nurses and teachers will be preferred) with 8,000 of those being re-employed after the training.

Intervention “Increasing the Employment of Youth through Sustainable Inclusion in the Bulgarian Labour Market”: Motivational and ICT and language training for youth aged 16 to 29, increasing their employability in vacant jobs. The total grant budget is BGN15 million and covers 10,400 young people.

“Adaptability” Intervention: Increasing the qualification of workers and employees transferred to part-time jobs due to financial and economic difficulties experienced by their employers through providing qualification training for attainment of professional qualifications. The target group is hired workers in the industry and services sectors, who have been transferred to part-time jobs. The scheme will cover 42,000 people, 8,400 of whom will be entitled to use transport benefits for travelling from their workplace to the training centre and back. The total budget amounts to BGN90 million until 2012.

COMBINATION OF ACTIVE AND PASSIVE LABOUR MARKET POLICIES

The active and passive labour market policies are relatively autonomous systems, whose management and funding is delegated to respectively the National Social Security Institute (NSSI) and to EA. Despite their autonomous status, several measures have been taken in the last 2

years (2009 and 2010), which were designed to achieve a good combination of active and passive policies aimed at ensuring better and more sustainable security for the unemployed.

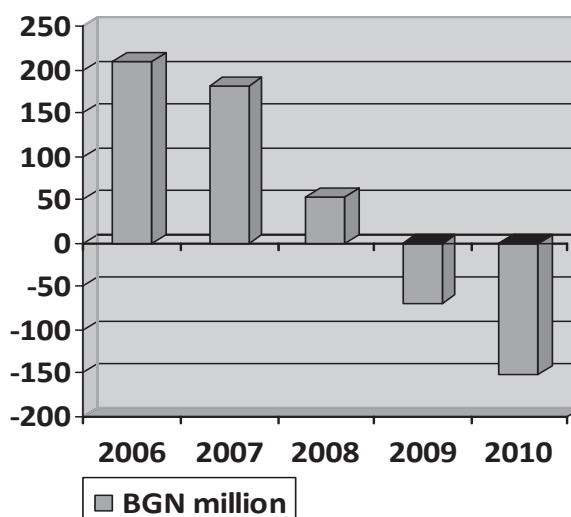
Some measures and programmes (including under the Operational Programme “Human Resources Development”), such as extending the unemployment benefit entitlement to three months for people attending training and qualification courses are a step in this direction. The main target group are young people of up to 29 years of age. The condition is for them to actively seek a job and make conscious efforts to acquire knowledge and skills.

According to the provisions of the Social Security Code (SSC), the amount of unemployment cash benefits was set at 60% of the average daily wage of the person for the 9 months preceding the risk event covered by the insurance, but not less than BGN6 and not more than BGN12 per day. The above restriction affected most seriously the highest paid workers and employees. In the case of layoffs they were supposed to receive unemployment benefits which were 3 or 4 times lower than their wages. Amendments to the SSC were adopted, abolishing the maximum threshold and increasing the minimum to BGN7.20. The unemployment benefit was fixed at 60% of the average daily contributory income for the preceding 18 months. The amendments restored the fair principle that the amount of the unemployment benefit should depend on the amount of the contributions paid.

We need to note, however, that the positive changes were effected in an unstable fiscal environment. In times of economic growth and a low unemployment rate the unemployment contributions were 3% and the fund registered annual surpluses. Instead of continuing to accumulate funds as a buffer for potential negative trends on the labour market, the unemployment contribu-

tion was reduced to 1% as of 01.10.2007. The problems occurred in 2009 when, in a situation of actual crisis, it turned out that the resources for passive labour market policies (PLMP) were insufficient. In this way the BGN209 million surplus in 2006 was gradually brought down to BGN54 million in 2008 to reach a BGN70 million deficit in 2009, which in the following year peaked at BGN125 million (Chart 3).

Chart 3: Deficit /-/, surplus +/- of the Unemployment Fund (2006-2010)



Source: NSI. Statistical Reference Book “Demographics, Economy and Social Security 1990-2010”. Sofia, 2011, pp. 83

FINANCING OF THE LABOUR MARKET MEASURES

Approximately equal amounts of budget funds were allocated for ALMP in the years of high economic growth – in 2007 BGN173.1 million and in 2008 BGN173.0 million, which, in a nominally growing GDP, meant that their relative share was decreasing (respectively in 2007 – 0.29%, and in 2008 – 0.25% of the GDP). Without paying much attention to the first warning signs for the coming financial and economic crisis, the plans of the former government as outlined in NAPE-2009 included national budget funding for ALMP amounting to BGN190 million.

The budget deficit forced the next government to take unpopular measures in the second half of 2009. Firstly, the ALMP funds were reduced to 90% of the initially approved BGN190 million for 2009. In August as a result of the additional measures to limit the non-interest expenditures and transfers from the 2009 State

Budget a new reduction was made to the ALMP budget. The EA funds allocated for ALMP were lowered to BGN165.8 million (Table 4). This represents 0.24% of the GDP as a relative share and in the much reduced 2010 Budget the funds dedicated for ALMP as per NAPE-2010 (only BGN65 million) were 0.09% of the GDP.

Table 4: Budget expenditures for active and passive labour market policies

(fixed exchange rate: BGN 1 = EURO 0.51129)

Indicators	2008	2009	2010
GDP (BGN million at current prices)	69,295	68,322	70,474
Budget expenditures for ALMP (BGN million - planned)	173.0	165.8	65.0
Budget expenditures for ALMP (BGN million - reported)	173.0	155.7	63.3
Expenditures from the State Social Security Budget for PLMP (unemployment cash benefits – BGN million)	99.4	238.2	311.1

Source: NSI, NAPE, EA, MLSP, NSSI

At the same time the growing unemployment required additional funds to be allocated for financing both active and passive labour market policies.

Given the diminishing budget resources, the most effective use of the funds under OP "Human Resources Development" 2007-2013 gained in significance with regard to overcoming the effects of the crisis. Whereas in 2009 BGN8.1 million of the programme funds were spent on ALMP, representing 5% of the total programme budget, in 2010 the amounts increased to BGN34.1 million (35% of the total budget). Thus a considerable restructuring of the funding sources for ALMP took place:

At the same time, however, two facts that had a negative impact on ensuring the sufficient scope and financing of ALMP were to be noted:

- OP "HRD" is only complementary to the active employment policy funded by the state budget. It is difficult to make up for the large reductions in the state budget allocations (only BGN65 million, and

BGN63.3 million reported as expended) using external financing, because most of the operational programme activities are only aimed at providing training for unemployed and employed persons, i.e. some measures that are specific to Bulgaria do not meet the eligibility requirements of the European programmes and funds.

- The EU Fund absorption rate in Bulgaria is still quite low and, notwithstanding their growing share, the total funding for ALMP fell from BGN163.9 million in 2009 to BGN97.4 million in 2010. In a situation of increasing unemployment this resulted in significant changes to *the resources spent per 1 unemployed* indicator²⁰. It fell from BGN740 in 2008 to BGN583 in 2009 to reach only BGN277 in 2010 – this is below the 2003 levels (MLSP, EA, p.39).

The dynamic changes in the unemployment levels and the number of unemployed resulted in serious alterations in the amount of the funds

²⁰ Ratio of funds spent on active policies and the average number of registered unemployed per year.

necessary for PLMP (Table 4). Their relative share of 0.14% of the GDP increased twofold (0.35%) in the first crisis year – 2009, and in 2010 they represented 0.44% of the GDP.

If in 2008 the unemployed entitled to receive unemployment benefits were 28.9% of all unemployed registered with the Labour Offices, in the crisis years of 2009 and 2010

their share rose to respectively 43% and 39% (Table 5). In absolute numbers the increase is twofold. The average amounts of the unemployment benefits also rose rapidly. This development puts yet another social security system in Bulgaria under pressure (along with the pension and health care systems) and makes it strongly dependent on the budget transfers.

Table 5: Data about the registered unemployment in Bulgaria

Indicators	2008	2009	2010
Unemployed registered with the Labour Offices (average number per year)	233,719	280,980	350,944
Unemployed entitled to receive unemployment benefits (average number per year)	67,473	121,034	136,755
Average amount of unemployment benefits (BGN)	136,55	143,97	192,26
Unemployment rate as registered in the Labour Offices (mean percentage per year)	6.31	7.59	9.47

Source: Employment Agency and the National Social Security Institute

ASSESSMENT OF ALMP EFFECTIVENESS

An overall assessment of the ALMP effectiveness was carried out by the Economic and Social Council of the Republic of Bulgaria (see ESC/2/010/2009).

The results of the research project “**Assessing the Impact of the Employment Services as an Instrument to Achieve Successful Integration of the Vulnerable Groups into the Labour Market**”, developed by MLSP in partnership with NSI and EA and funded by the European Commission, are quite interesting (KOTZEVA, Mariana).

An innovative approach was used to establish the net effect of the employment services (with a more than two-year time lag) with NSI conducting 1600 interviews in May 2010 with unemployed persons who registered in the last quarter of 2007. The survey revealed the following changes in their status:

- **39%** of the unemployed respondents could not find any job after the registration in the Labour Offices and joined the group of long-term unemployed.

- **61%** of the registered unemployed who used employment services were able to find a job;
- **87%** of those who re-engaged in work found jobs that were not created under employment programmes and measures, i.e. in the primary labour market;
- **73%** of those who found jobs were still in the respective job at the time the survey was taken;

The following conclusions were made, based on the results:

- The individual employment services produce fast re-employment for the unemployed. An individualised approach is especially successful in the group of higher educated and qualified persons aged 30 to 50.
- There is a group of long-term unemployed who register with the Labour Offices in order to receive benefits and access to free services. More intensive motivation and activation activities are needed for these people because they show no interest in using the available broker services.

- The economic crisis led to a deteriorating labour market and decreased the chances of the vulnerable groups re-entering the market – low educated people, Roma, people with disabilities and long-term unemployed.

The results achieved in the **implementation of labour market interventions under OP “HDR”** have not produced a significant effect yet. On the one hand, the actual implementation of the activities was delayed and most of them will be completed in 2012. On the other hand, there are new operations planned but they are not being effectively implemented. The result indicators could be reported only after the interventions are fully implemented.

We need to point out, however, that in a situation of deepening crisis and limited budget funding for anti-crisis measures the approach of “building on existing programmes” by redirecting external funding for them could be defined as useful and appropriate. What is valuable in this approach is that the complementary functions can be based on the combination of tools and measures, thus overcoming certain shortcomings and weaknesses of programmes that have been tested. The approach can also be socially effective, providing that the state can allocate sufficient budget funds.

2.3.4 Horizontal Principles

The labour market in Bulgaria is not only the focus of government policies, but attracts the attention of the social partners as well – trade unions and employers’ associations, NGOs and research organisations. A positive evaluation (both internally and externally) was given to the operation of the Economic and Social Council (ESC), whose structure is based on the model applied in Western Europe and the European Economic and Social Council: equal quotas for three groups of representatives (employers, trade unions and civil sector). As a modern in-

stitution designed to promote social dialogue, it serves as a link between the public and the government in the decision-making process regarding the economic and social policy.

ECONOMIC AND SOCIAL COUNCIL OF THE REPUBLIC OF BULGARIA

For the period of its existence since 2003 the ESC has drafted and adopted by consensus 53 statements, analyses and resolutions on important issues, sectoral policies, and domestic and international documents. In terms of the labour market and employment policies the Council has drawn up 2 statements and 4 analyses, as well as 10 other documents with direct or indirect bearing on the labour sphere, dealing in a comprehensive manner with issues such as demographic problems, the education reform, vocational training and education, informal economy, reducing poverty and social exclusion and the specific Bulgarian priorities as related to the Lisbon Strategy, the National Reform Programme and Europe 2020 Strategy.

In its very first statement on “The Labour Market in a Situation of a Financial and Economic Crisis – Challenges and Possible Solutions” (ESC/2/007/2009, pp. 25-31) the ESC proposed three groups of anti-crisis measures:

The first group of measures relates to macroeconomic ones – drafting options for a deficit budget for 2010; retention of the current levels of employment and number of jobs in industries and enterprises of structural importance for the economy; developing new mechanisms for determining the minimum wage and unemployment benefits.

The second group of measures refers to employment flexicurity – adapting the national flexicurity pathway; increasing the role of collective bargaining in the *flexicurity* system; formulating a modern national industrial policy; developing a National Programme “New Skills for New Jobs”.

The third group of measures is aimed at promoting labour mobility – in the current situation along with the traditional forms of internal mobility (broker services, consultant services and education), which continue to be of interest. The focus is put on external mobility by providing support for the establishment of alternative systems for monitoring the labour markets and dynamics of the flows reflecting the situational transformations.

Later on, following a proposal of the Council of Ministers, the ESC developed **„An analysis of the programmes, projects and active labour market policies laid down in the National Action Plan for Employment 2009, including OP “HRD”, the Beautiful Bulgaria Project and the Social Investment Fund of Bulgaria”,** which contained an assessment of the policies and important recommendations for improvements (ESC/2/010/2009, pp.18-20).

The findings in the analysis demonstrated certain weaknesses in the existing practice of identifying the measures and determining their scope, which leads to: lack of realistic planning which takes into account the existing demand; infeasible measures or strongly overestimated potential impact. The budget cuts made it necessary to seek other sources of funding for the anti-crisis measures.

The main instrument for improving the quality of implemented policies recommended by the ESC is the dynamic management of the funds dedicated for active measures. For this purpose a dynamic monitoring and evaluation system is to be developed in order to conduct annual assessments of all measures and programmes, regardless of the source of funding, based on a set of adequate criteria and indicators.

The ESC recommends that the budget-funded training and qualification activities overlapping with OP “HRD” funded activities be reduced, with most of them being redi-

rected for external funding. Special attention is paid to the need for the people who were discharged or transferred to part-time jobs to be re-qualified and re-employed or to improve their professional qualifications so as not to lose their working habits and skills.

Taking into consideration the importance and rate of youth unemployment, the ESC recommended that special measures be developed (or existing ones reinforced) for the young people finishing school or university, arguing that even temporary employment would be psychologically important in the period when the young people acquire and develop their labour habits.

In the second half of 2011 the ESC drafted and adopted an analysis of **“The Challenges of Labour Markets in the Context of Europe 2020 Strategy”**. The document is valuable because on the one hand it contains a summary of the general trends and problems in the national labour markets in Europe, and on the other it offers a detailed outline of the specific features by country and region (ESC/2/030/2011, pp.6-16). In this way the main challenges to attaining the Europe 2020 objectives are identified. A specific analysis is made to the specificities, shortcomings and threats in the development of the Bulgarian labour market, which is a valuable resource in the decision-making process and in the policy-formulation process in the next two government terms.

SOCIAL DIALOGUE

The above-mentioned initiatives and documents of the ESC of Bulgaria can be evaluated as very useful, especially given the fact that some of the proposals have been put into practice. The usefulness is not only due to the expert quality of the proposals, but also to the social dialogue mechanisms used to promote the proposals and transform them into specific policies.

The National Employment Promotion Board²¹ (NEPB), established pursuant to Art. 8 of the Employment Promotion Act, is a standing body for cooperation and consultation in the formulation of employment policy. The Board is tasked with discussing and giving opinions on proposed legislation, measures and programmes for overcoming the economic crisis, and retaining and promoting employment. The NEPB collects information on the labour market developments, and the effectiveness of both ALMP, laid down in NAPE, and the interventions and operations implemented under OP “HRD”. The social partners can discuss possible changes in the policies and programmes, take decisions to reallocate funds between programmes and measures and propose new projects.

For instance, the anti-crisis measure aimed at retaining employment through partially supported transfers to part-time jobs, applied in 2009, was developed by CITUB experts, adopted by the NEPB and included as ALMP. “The Bulgarian Pathway for Achieving Better Flexibility and Security in the Labour Market 2009 – 2011” was also drafted by an expert group composed of representatives of the social partners.

Significant support for improving the capacity of employers’ organisations and trade unions to attain the key employment policy objectives was provided within the scope of OP “HRD” intervention, aimed at increasing labour market flexicurity through active involvement of the social partners. As part of this scheme each nationally representative organisation launched separate projects with a 2013 time horizon.

The regional employment policy is being carried out by the District Commissions on Employment and the Cooperation Councils

at the Labour Offices. They have an important role to play, both in terms of developing local employment and training initiatives, and in terms of monitoring the implementation of the programmes and measures laid down in NAPE. The regionalisation process became the focus of attention in 2010, when a large number of regional programmes were included in NAPE – 2010. The regional approach is not only a tool for improving the capacity of the local authorities to develop employment projects, but it contributes to increasing the financial resources needed for project implementation.

Tripartism, as a form of cooperation and social dialogue, is also applied with regard to vocational education and training directly associated with employment and the labour market. The Managing Board of the National Agency for Vocational Education and Training (NAVET) is composed of equal quotas of representatives of the relevant ministries, organisations of employers, and of workers and employees. Through their involvement in the development and adoption of strategic, analytical and methodological documents related to vocational education, lifelong learning, and continuing professional training, the social partners can influence the labour market policies. Improving the quality of the workforce is in the best interest of all stakeholders – the government, employers and trade unions – and their effective cooperation contributes to finding the best solutions. In fact most of the active labour market measures are implemented by the Vocational Training Centres which are licensed by NAPET and employ curricula and state educational requirements approved by the Agency.

EQUAL OPPORTUNITIES

One of the main objectives of the labour market policies is to ensure equal access to work, and, in the case of layoffs – to guarantee fair unemployment benefits reflecting the contribution of

²¹ It is composed of representatives of ministries and state agencies and representatives of the nationally representative employers’ organisations and trade unions with equal voting rights.

the individual to the social security system. This horizontal principle applies to both the passive and the active labour market policies.

The amendments to the Social Security Code provided for a unified mechanism for calculating unemployment benefits: 60% of the contributory income for the preceding 18 months. In this way justice was restored, i.e. equal treatment of all insured.

The national legislation in Bulgaria, and the labour legislation in particular, rules out discrimination by gender, age, religion, and ethnic origin, but the reality is that there are many loopholes in the law. Often Roma people or single young women, who might be expecting to get married and then need maternity leave, are disregarded when they are applying for vacant jobs.

The situation is different as far as the so called “gender pay-gap” is concerned. The differences in labour compensation based on gender (Table 6) are explained with the specific features of employment – women are predominantly employed in the so-called “feminised” industries and sectors such as the textile, sewing and knit-ware branches, where the mean wage is significantly lower than the average for the country (60-70% of it). The other pole is occupied by the “male” industries, such as metalworking, energy, and mining where the compensation levels are much higher than the average for the country.

Table 6: Mean annual salary by gender (in BGN) and as a ratio (%)

	2006	2007	2008	2009
Men	4,717	5,629	7,161	8,067
Women	3,928	4,693	5,884	6,539
M/W Ratio	83.3	83.4	82.2	81.1

Source: NSI, Data on Employment and Labour Costs

The existing practice of drafting National Action Plans for Employment demonstrates

that the active labour market measures are strongly diversified and targeted at a number of vulnerable groups of unemployed. This, to a large extent, ensures that the vulnerable groups will be compensated. This goal, however, is not always attainable, especially if sustainable employment in the primary labour market is sought. Despite the incentives, employers are not inclined to hire people with disabilities, people suffering from mental disorders and addictions, or former prisoners. There are two key reasons for this: the lack of a supporting environment and the lack of appropriate complex services for such people. This is why the ESC recommended that the existing measures and programmes in this respect be revised with a view to developing interventions which are not only adequate for these important target groups, but also promote the establishment of a favourable environment in which the measures can be implemented. (ESC/2/010/2009, p.21).

2.3.5 Country Specific / Practical Issues

Two issues that are frequently discussed in terms of the effectiveness of the measures and programmes applied to address them can be described as country specific:

- providing supported employment for recipients of unemployment benefits;
- supporting and stimulating the unemployed to start their own business.

The National Programme “From Benefits to Employment” was launched in 2003 as an innovative intervention aimed at re-engaging long-term unemployed who have lost their working habits and cannot make the transition to the primary labour market on their own. The idea was, on the one hand, to promote the employment and social inclusion of long-term unemployed receiving benefits and, on the other, to motivate them to

improve their qualification. Private, municipal and state-owned enterprises and NGOs are eligible to apply as employers, and the jobs the unemployed can perform are: building and maintaining technical and social infrastructure, social services including for vulnerable groups, and community services.

The ambitious goals of the programme were revealed by the initial scale of implementation. In 2003-2004 more than 117,000 unemployed were included in the programme annually, which represented 80-85% of all participants in the Employment Agency programmes. The Programme "From Benefits to Employment" was fully funded by the budget and the allocations for the period varied between BGN129 million and BGN156 million. Gradually the programme was scaled down to include in 2008-2009 about 50,000 participants, with the budget allocation dropping to BGN51-53 million. This trend continued in 2010 but, due to the fact that other programmes were redirected to receive external funding, the Programme "From Benefits to Employment" remained the largest budget-funded programme. A total of 39,000 people have participated in the programme in the past year and more than BGN 27 million has been spent on programme implementation. The main activities have been: maintenance and repair of playgrounds, construction works, landscaping, drain cleaning, etc. For reasons that are easy to understand, the initial idea of providing social services was not put into practice.

In spite of this, in the past 8 years the Programme "From Benefits to Employment" has established itself as the most significant active measure providing employment to long-term unemployed in the secondary labour market. Such supported employment is often debated and its effectiveness frequently questioned. It is undoubtedly useful, to the extent that it results in community work instead of pay-

ment of benefits. On the other hand, however, this employment is temporary and does not change the status of the programme participants – they return to the same reality of being unemployed, low-qualified benefit recipients. Without taking a categorical position in its analysis, the ESC recommended that programme implementation continue, given the deepening crisis and the social effect of the programme. There is still a marked interest in the programme on the part of employers and municipalities, but (whether under the same title or not) it should be more regional in nature and adapt to the specific needs and demand in the respective region (ESC/2/010/2009, p.20).

This ESC recommendation was taken into account and in 2010 the 80 regional employment programmes aimed at solving specific local issues started ensuring access to employment for vulnerable unemployed. A total of 723 unemployed per month participated in the programmes throughout the year and another 1288 people were included. The total amount of funds spent at regional level was BGN2,540,800 (MLSP,EA, p.51). Given the growing number of long-term unemployed and the increasing number of benefits recipients, it is evident that the programme will continue to be implemented in the years to come, with its central management being gradually transferred to the regional level.

The start-up opportunities for the unemployed are also questionable. A Micro-credit Security Fund was established in 2001 by force of a Council of Ministers Decree No. 123. A total of BGN20 million of the national budget was allocated to secure the micro-loans. MLSP took part in the project through the branch offices of EA and the objective was to facilitate the access of the small enterprises and start-ups to financial resources and make better use of the available funds. The experience accumulated by the Security Fund until

2009 showed that mostly expanding small enterprises that open new jobs have used the Fund. The extent to which it was used for start-ups was lower and only individual unemployed persons were able to transition to self-employment using the Fund services.

Survey results show that the relative share of unemployed willing to start their own business is not to be ignored. According to data from a survey conducted by the ITUSS of CITUB there is a "hard core" of 5.3% and a periphery of about 15% of people who are inclined to be self-employed, provided the environment is favourable. (ILO, ITUSS, p.7). There are difficulties, however, in translating these attitudes into practical action because no attention is paid to social funding and the traditional loan-giving institutions place impossible conditions on the start-ups. This represents an even bigger challenge for the unemployed. Their transition – from the group of unemployed to self-employed, to using family workers or creating a small number of jobs in their own small business – requires special skills and capabilities on the one hand, and the existence of adequate tools and mechanisms making the transition easier, on the other.

The new programme "Support for Entrepreneurial Bulgarians", funded by the European Social Fund brings some hope in this respect. The total budget amounts to BGN75 million, with BGN20 million being allocated for training, and BGN5 million for accounting and consultation services after the start of the business. At least 2,500 unemployed will get a chance to start their own business and receive up to BGN20,000 for this purpose by the end of 2013.

An eligibility condition for the applicants is to have attained at least an elementary education level and to be registered with the labour offices. The approved applicants will receive special training in small and medium business and business services. For this purpose they

will be issued a voucher and will be able to freely choose a training centre licensed by NAVET. They will also receive cash allowances for the duration of the training course. The amount is BGN8 per day, with the transport cost to the training venue being covered by the programme.

The next steps are: orientation to business plan development consultations; registration of a company; applying for financial aid with the labour offices (up to BGN20,000 depending on the project); evaluation of the project by the evaluation committee (external experts) at EA; in the case of approval the amount will be paid in three instalments: 20% advance payment, interim transfers and final payment.

The programme has clear advantages compared to previously existing interventions, because it is exclusively targeted at the unemployed, does not require them to secure a loan or their own funds and in fact provides financial support throughout the entire start-up cycle – training, consultation services, start-up investment, and turnover capital. The scope of the programme is extremely extensive – from small stores, gyms, hair and cosmetic saloons and service centres to micro-enterprises in the IT sector. Only activities related to agriculture, forestry, fishery and aquacultures are ineligible because they are funded under other European programmes.

2.3.6 Conclusions / Recommendations

The combination of full productive employment with dignified work and pay as a principle underpinning the recovery after a long crisis requires ***giving up the dominance of the "economy of supply"***.

Increasing competitiveness using dumping policies does not produce sustainable advantages and the state should focus its efforts on promoting ***fair competition among the economic players***. When this mechanism

works smoothly and following the market logic, the factors contributing to the expanding grey economy will be largely eliminated. These efforts are worth it because they will lead to the establishment of a normal economic environment and favourable conditions for economic growth, hence better and more sustainable employment.

In a situation of the world economy slowing down, exports cannot be a solution of national economic recovery and **private investments and internal consumption** should be stimulated, which requires an adequate credit policy and active income policy. The negative trends do not only stem from the economic crisis, but from some wrong key policies and approaches to exiting the crisis – turning the strict fiscal discipline into a mantra, freezing salaries and pensions and insufficient loan resources for the business.

The focus of labour market policy should be placed on the gradual transition from retaining jobs as a priority in the period of recovery to creating **sustainable and good-quality employment** after the crisis. Along with applying flexible interventions such as shorter working hours, job rotation and sharing, it is necessary to promote employment in the high-tech sectors and to open “green” and “white” jobs.

It is especially important to increase **investment in human capital** with the state,

employers, local authorities and regional communities sharing the burden without ruling out individual responsibility. Concrete tools for implementing the policy of continuing vocational training and life-long learning could be: the establishment of sectoral funds for improving the qualification of the employed and setting up individual training accounts.

The active labour market policies should put the emphasis on promoting the **geographical and professional workforce mobility**. The employment status transition requires better regulation. Stronger protection in the case of transition to unemployment is a step in the right direction, but such social security instruments and mechanisms should be in place for other transitions: from studying to employment; from employment to improved qualification; from employment to retirement, etc.

Last but not least, it is very important to **reduce to a minimum the group of school drop-outs**. Actual progress can be made by decentralising the measures and activities. This means that the national regulations should be complemented by regional action and action at school level because this will allow for: direct contact with the parents, social services and child protection services; and a special approach to the students and attention to their motivation, based on their individual needs and preferences.

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2.4 Croatia: Time to Re-evaluate Employment Policy

Maja Vehovec, Iva Tomić

Abstract

The current situation on the Croatian labour market does not look very promising. Nonetheless, it seems that the global financial and economic crisis has only emphasised already existing problems. Croatia has the lowest employment rate among all EU countries, which, together with a two-digit unemployment rate, clearly indicates that there are internal structural reasons for this unfavourable situation. The main culprit for the lack of the necessary dynamics in the labour market flows is the labour demand. Faced with the absence of domestic and foreign investments, rigid employment protection laws and high tax burdens, it is almost impossible for firms to create new jobs and expand the overall labour demand. Thus, it seems that employment policies should help in this kind of situation. However, the assessment of employment policies in Croatia reveals that there are more weaknesses than strengths among internal factors, with some positive expectations amid the external factors which are connected with accession to the European Union. However, relying only on accession to the EU in a situation of reasonably unfavourable economic conditions in its member countries does not seem like the best strategy. In order to improve employment potential, Croatia should rely more on its internal strengths and institutional conditions.

2.4.1 The Labour Market Situation

Croatian labour market development trends in the period from 2006 to 2010 clearly show the impact of the global economic crisis, the effect of which on labour demand was modest in 2008, but increased in intensity during the following years. Negative economic activity in 2009 (-6.0% change of real GDP) and 2010 (-1.2%) accompanied with a drop of -0.8% in the first quarter of 2011 (EIZ, 2011) had an adverse effect on the labour market. These trends resulted in reduced employment and increased unemployment. Unemployment has spread across all age groups, affecting to a somewhat larger extent the older and younger groups. The significant increase in unemployment rates was due to a loss of jobs and decreased new employment possibilities. According to Eurostat statistics, it seems that, at the beginning of the global crisis, the demand for labour in Croatia was not hit as hard as in other countries in the region, but

only the later evidence (from 2010 to 2012) will demonstrate how long the problems will have lasted in each country. In the first half of 2011 the total number of registered unemployed persons in Croatia declined slightly, but it is still too early to conclude whether this is only a temporary improvement or a continuing declining trend. There are some warnings that the duration period of the labour market recovery in Croatia will be longer than in some other countries (Eurostat).

2.4.1.1 Employment Rates

Employment growth in the period from 2006 to 2010 in Croatia shows a declining trend that started in 2008 (Table 1). The negative growth rate continued up to 2010, but some small recovery data can be observed at the beginning of 2011 (EIZ, 2011). However, employment rates in Croatia are continuously below average employment rates in EU15 countries. When compared to other countries in the re-

gion Croatia has a similar employment rate to Hungary, but is below all other new EU member states (NMS). The Croatian employment rate (15-64) is one of the lowest in Europe: it was around 57% in 2009, and declined further to 54% in 2010 (Figure 1). The breakdown by gender shows that there is male predominance in the employment rate in Croatia, in keeping with the pattern in the majority of EU countries.

Despite the impact of the financial and economic crisis there are structural influences embedded in the low employment rate, such as the duration of education for the young cohort of the working-age population (between 15 to 24 years) as well as the employment rate of older workers (55-64). In 2010 the older-age male employment rate in Croatia was 49.2% (27.3% F)²², in comparison with an average of 54.6% (38.6% F) in EU27. Traditional reasons for lower female employment also influence the overall lower employment rate but the most problematic evidence is prime-age (25-54) male employment. Men

in the prime-age group in Croatia have an extremely low employment rate of only 74.7% in comparison with the average of EU27, which was 83.9 in 2010.²³ That means that some of the male labour force at their prime working age are not (officially) working. Female employment rates in the prime-age group are lagging behind in comparison with other countries within EU27 and with respect to male employment rates in the equivalent group. The generally low employment rate of the prime-age cohort in Croatia is the core problem in employment, regardless of specific employment difficulties at the entrances to or exits from the labour market. Evidently, this is primarily a labour demand problem, caused by insufficient new job creation and the absence of domestic and foreign investment.

Looking at how the crisis has hit employment rates divided by gender and age, there is no difference between Croatia and EU countries. Men have been hit more than women and the younger more than the older cohorts.

Table 1. Employment growth and employment rates in Croatia, 2006-2010.

	2006	2007	2008	2009	2010
Employment growth (% change from previous period):	-0.6	3.5	1.1	-1.8	-4.0
- EU15 average	1.5	1.6	0.7	-1.8	-0.3
Employment rate, age 15-64 total:	55.6	57.1	57.8	56.6	54.0
EU15 average	66.2	66.9	67.3	65.9	65.4
Employment rate, age 15-64 male:	62.0	64.4	65.0	62.4	59.4
Employment rate, age 15-64 female:	49.4	50.0	50.7	51.0	48.8
Employment rate of older workers (55-64):	34.3	35.8	36.7	38.4	37.6
EU 15 average	45.3	46.5	47.4	47.9	48.4
Persons employed part time (% of total employment):	9.4	8.6	8.8	9.0	9.7
Employed persons with a second job – annual average (1000):	47.9	47.9	50.3	47.2	42.3
Employment rate (15-64), by NUTS 2 regions:					
North	/	62.4	63.1	62.1	60.4
Middle	/	52.5	53.7	52.2	48.3
Adriatic	/	55.1	55.0	53.9	51.7

Source: Eurostat.

²² In brackets F means female. CES, Analytical Bulletin, No. 2, pp. 18-19.

²³ CES, Analytical Bulletin, No.2, 2011, pp. 16.

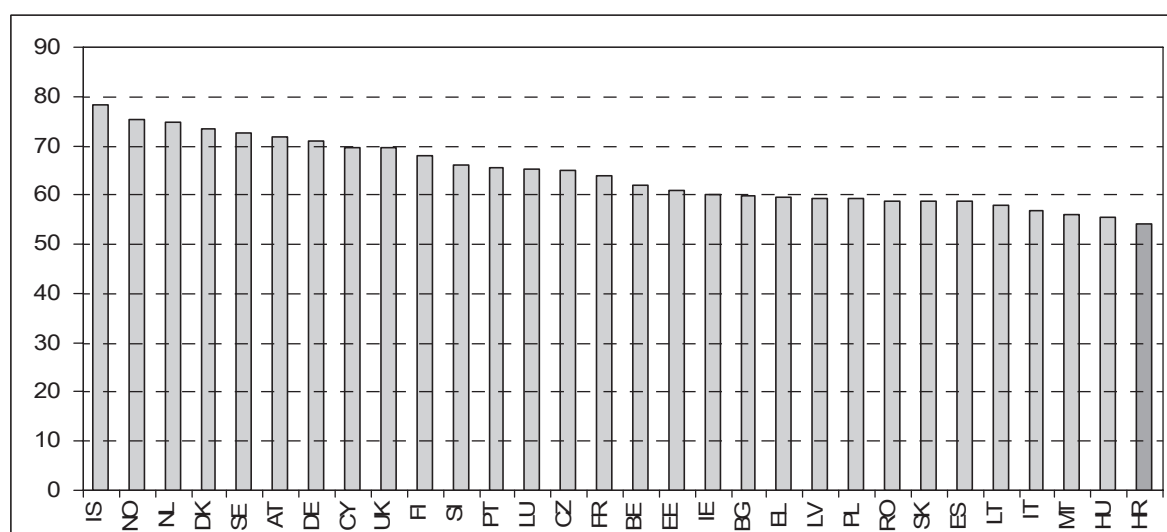
The low employment rates in Croatia are mainly based on full-time employment. Each of the long-standing EU member states uses part-time employment in different ways, but all are using it more than the new member states. This is the result of an institutionally entrenched working culture which does not easily recognise new types of employment. Figures for part-time employed persons in Croatia are at a low level, similar to those for Slovenia and Romania, but higher than in Bulgaria, the Czech Republic, Latvia and Lithuania. This indicates that part-time working contracts are institutionally developing only slowly. The same applies to employees with a second job. In this indicator Croatia is ahead of

Bulgaria, Poland and Slovenia, although one has to keep in mind that data on secondary jobs could have multiple social and economic consequences which are not always positive.

The regional distribution by NUTS 2 regions in Croatia displays higher working activity in the northern part of Croatia compared to the middle and southern (Adriatic) parts. In general, NUTS 2 data can be a misleading indicator because there are big differences between the 21 counties within the NUTS 2 regions in Croatia.

The employment/working-age population ratio dropped by 5% to 56% in 2010 from a pre-crisis level of 59% in 2007, which was already very low.

Figure 1. Employment rates 2010 (age 15-64), country comparison



Source: Eurostat.

Table 2 shows the composition of employment in Croatia by economic activity and occupation in comparison with EU countries in 2010. Agricultural employment has a much larger share in Croatia (almost 10 percentage points above that of EU27), while the proportion employed in the service industries is smaller by 3-8 percentage points compared with the EU27. On the other hand,

Croatia has the largest share of employed skilled manual workers (9 percentage points higher than the EU27), while the proportion of skilled non-manual workers is smaller by 8 percentage points than in the EU27. Interestingly, the proportion of those within elementary occupations is almost lowest in Croatia (these figures are lower only in the Czech Republic and Sweden).

Table 2. Composition of the employed population (%), 2010.

	by economic activity				by occupation			
	Agriculture	Industry	Market services	Non-market services	Skilled non manual	Low skilled manual	Skilled manual	Elementary occupation
EU-27	5.2	25.4	39.2	30.3	39.9	24.9	25.5	9.8
EA-16	3.6	25.4	40.0	31.1	40.7	25.2	24.1	10.0
RH	14.9	27.3	35.8	22.0	32.1	25.9	34.8	7.3

Source: Eurostat.

In the manufacturing sector employment started to decline in 2007 and figures for the changes in employment (i.e. the percentage change over the same quarter of the previous year) became negative at the beginning of 2009.²⁴ Since then, the quarterly changes in employment in the manufacturing sector have remained negative. The beginning of the declining trend in employment in the manufacturing sector is explained by the slowdown of economic activity, and its primary cause was not the external financial and economic crisis that then escalated in the autumn of 2008. In fact, the reasons for the slowdown in economic activity, which was already in evidence in 2007, are to be found in the country's internal economic problems. The trend in the retail sector is almost the same. In the first quarter of 2011 the retail sector showed slight recovery, although not enough to leap to a positive scale of employment change for the period.

2.4.1.2 Unemployment Rates²⁵

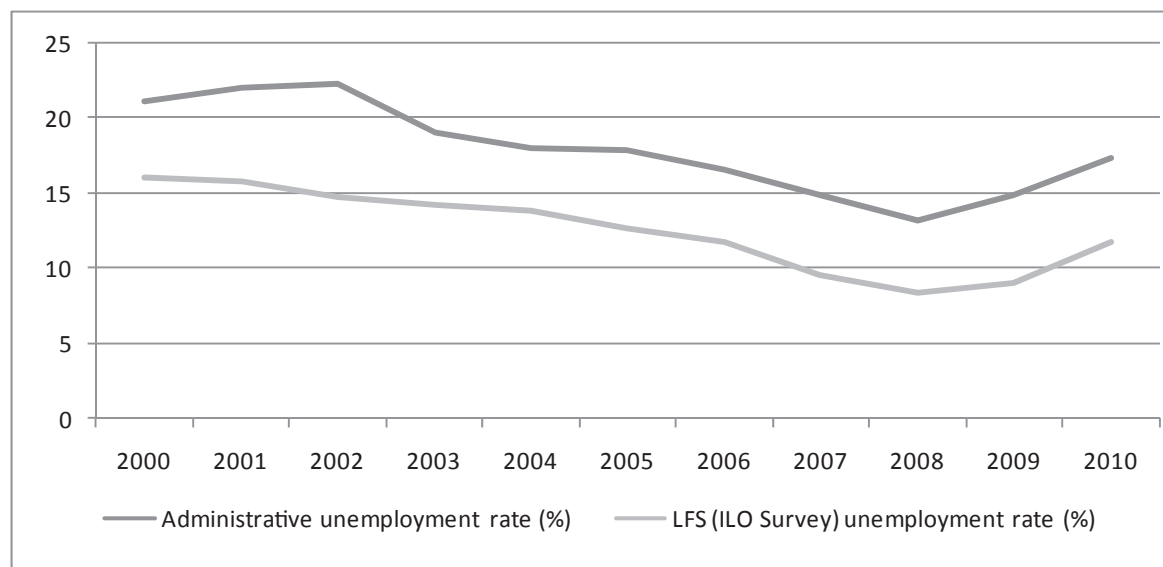
The unemployment rate based on LFS data increased from 8.4% in 2008 to 9.1 in 2009 and 11.8% in 2010 (Eurostat). On the other hand, the unemployment rate based on administrative (CES) data showed a declining trend up to 2008, after which it started to grow (Figure 2). These two measures follow almost the same trend, with the proviso that the administrative rate is always some 4 to 6 percentage points higher than the LFS unemployment rate.

The unemployment rate observed in 2008 was the lowest for a long time, when the global financial crises erupted in that autumn. Figure 4 shows how unemployment started to rise at the end of 2008. Since then unemployment rates have increased continuously, and in 2010 the unemployment rate reached and then surpassed the levels of 2006. Clearly the crisis reversed the substantial reduction in unemployment that had occurred in 2008. In the middle of 2011 there were some signs of economic recovery, which might indicate that the unemployment rate could change from its increasing path. However, LFS data of the quarterly average unemployment indicate a continuing increment.

²⁴ CES, Analytical Bulletin, No. 1, pp.22.

²⁵ When discussing the unemployment statistics it is important to know the source of those statistics. Official (registered) unemployment data are taken from the Croatian Employment Service (CES) statistics, and other unemployment data are derived from the LFS (Labour Force Survey) from the Croatian Bureau of Statistics (CBS).

Figure 2: Unemployment rates



Source: CBS.

In comparison with other countries in 2010, the Croatian unemployment rate was lower than in Spain, Latvia, Lithuania, Estonia, Slovakia, Ireland, Greece, and Portugal but still somewhat high. Generally, the unemployment rate increased in Croatia by 2.2 percentage points in the period from 2007 to 2010 (from 9.6% in 2007 to 11.8% in 2010), but this was still less than in EU27 or EU15 (which showed an increase of 2.5 percentage points in the same period). Unemployment in terms of the number of unemployed persons was higher for men in all age groups.

There are large differences in unemployment rates by NUTS2 regions as well as among counties. The lowest unemployment rate is in the North-West region (including the City of Zagreb), with 7.9% (Eurostat), followed by the Adriatic region with 11.3%. However, unemployment rates increased in all regions after 2008. Significant differences in unemployment rates are evident among the counties. In eight counties, unemployment rates were lower, and in thirteen higher than the average national level. The lowest registered unemployment rate was recorded in the City of Zagreb (7.7%), and Istria County (8.5%). By con-

trast, the highest unemployment rates were recorded in Brod-Posavina County (30.4%), Sisak-Moslavina County (30.3%), Vukovar-Sirmium County (30.1%), and Virovitica-Podravina County (29.9%). Regional differences in unemployment have many causes, which could explain the imbalance between labour force demand and supply (Botric, 2009). Labour mobility in Croatia is generally low, so it does not contribute to better matching between labour supply and demand.

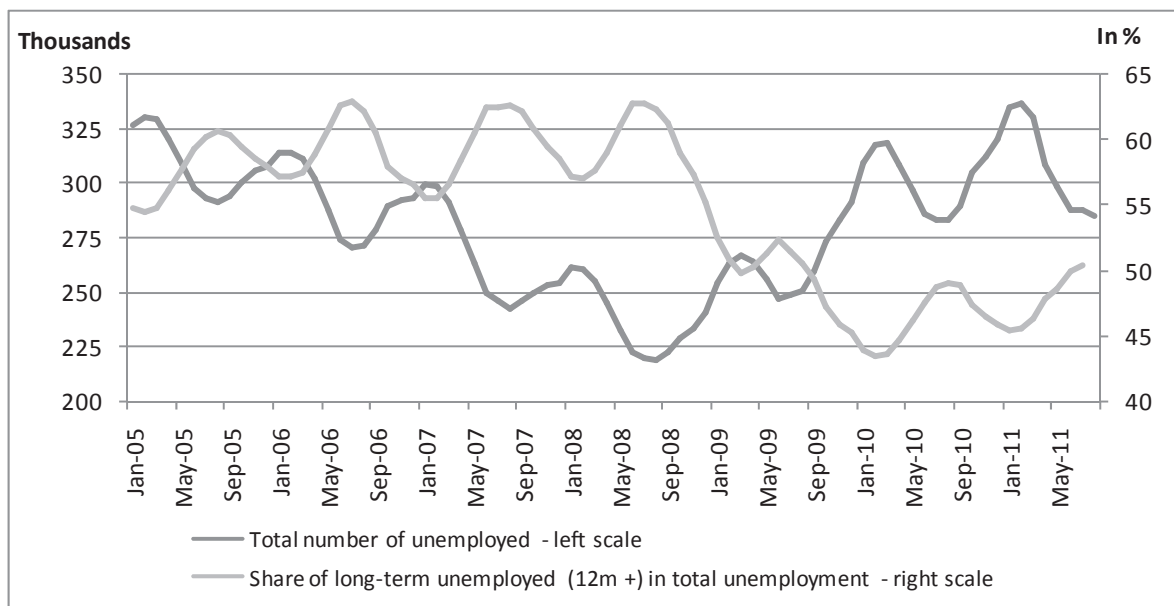
In terms of numbers, the average number of unemployed persons grew from 263,000 in 2009 to 302,000 in 2010, and then to 316,000 in the first half of 2011 (Figure 5). The number of men in the total number of the unemployed grew from 40.7% in 2009 to 45.2% in 2010, while the number of women decreased from 59.3% to 54.8% in the same period, demonstrating the same gender trends as in EU countries. In unemployment, the crisis hit men more than women.

In terms of age, at the end of 2010 unemployment was higher in all age groups in comparison with the same period in 2009. The highest increase in unemployment was recorded in the age groups of 60+ (14.9%), 30-34

(14.4%) and 20-24 (14.0%). Compared with the end of 2009, the number of unemployed increased in all groups of educational qualifications, with the exception of the group without any schooling or with uncompleted primary school, where a decrease in unemployment of 3.2% was recorded. The largest increases in unemployment were recorded in the group of persons with university and postgraduate degrees (29.8%), as well as in the group of those who had completed a first degree of a faculty or professional study (17.6%).

The long-term unemployed form the most vulnerable cohort in unemployment (i.e. those registered at the CES for more than 12 months). The statistics for the long-term unemployed decreased consistently until the autumn of 2009 (September-October). After that period, we observe an increasing number of registered long-term unemployed. However, since the overall number of registered unemployed grew even more rapidly, the share of the long-term unemployed in the total number of unemployed decreased (Figure 3).

Figure 3: The total number of unemployed persons and their share of long-term unemployment



Source: CES.

The total of some 150,000 persons who have been unemployed for more than 12 months represents a significant cohort, whose employability presents serious problems. The number of those who had been unemployed for more than three years dropped at the end of 2010 in comparison with the end of 2009, although probably not because they found jobs, but rather because they became discouraged and left the labour market. For instance, in Croatia many older persons who were still in the working-age population quit the labour market to take early retirement, due to the period of unfavourable economic activity.

2.4.1.3 Youth Unemployment

Many academic researchers (O'Higgins, Pastore, Beleva and Ivano, 2001; Caruolo and Pastore, 2002; Kolev and Saget, 2005; Pastore, 2008) as well as the EU administration have addressed the importance of youth unemployment. The EU is providing guidelines for decreasing youth unemployment and creating an easier transition from education to work. Across all EU member states and accession countries young people are confronted by labour market problems similar to those faced by

adults, but they are more sensitive to changes in economic conditions. Even though the youth unemployment level reflects the fluctuations in the overall level of unemployment, youth rates tend to decrease more during “booms” and to increase more in recessions than overall rates. ILO (2001) research has shown that an increase in adult unemployment of one percent is followed by an increase in youth unemployment of approximately two percent. One of the reasons for the greater sensitivity of youth unemployment figures could be the fact that the cost of firing young workers is lower than in the case of adult, experienced workers. Moreover, the employment legislation, which restricts the freedom of employers to adjust the level of employment according to their needs, does not protect young workers to the same extent as it protects prime-age workers. That is why it is easier for the employer to fire young employees.

The consequences of unemployment and the lack of employment opportunities for young people lead to social exclusion, poverty and to low-productive activities in the grey economy. The difficulties that young people face when they enter the labour market can affect their behaviour in many ways. As a response to the unfavourable conditions on the labour market, young people may delay their entrance into it by remaining longer in the educational system in order to enhance their chances of finding a job. Another response to high youth unemployment can be emigration, which is looked upon as a positive opportunity for young people (especially for those who are highly educated) to solve their problems of unemployment and poverty by finding jobs abroad. However, there are negative effects of emigration: the potential risk of ‘brain drain’, the risk of losing the best among the young labour force, as well as the risk of losing the investment in education in the home country. Another consequence of

high youth unemployment is greater employment of young people in the grey economy. Working in the grey economy can certainly help young people to reduce the income problems which go with unemployment, but this cannot be a long-term solution.

Croatia has slightly more than half a million young people (aged 15-24), which constitutes 13% of the whole population, and this number is decreasing, due to negative natural changes (see Figure 1). In the cohort of young people in the labour force, which numbers around 200,000 persons, 38% are active and the rest are inactive. Activity rates are low and have been falling steadily during the last eight years, while inactivity rates are steadily increasing (JIM, 2011). Unemployed young people amount to 70,000 persons (Eurostat, 07/2011) and the rate of unemployment is high, about 42.8% in 2011 (Eurostat), which represents a slight increase in comparison with the end of 2010. This rate of unemployment is exactly double the average rate of EU15 (20.2%) and EU27 (20.7%). On the scale of youth unemployment rates Croatia’s position is similar to that of Greece, and better only than Spain’s. The youth unemployment rate in Croatia is among the highest, placing Croatia alongside countries like Slovakia, Latvia, Lithuania and Estonia, whose rate exceeded 30% in 2010.

In EU countries youth unemployment is one of the most challenging problems. The rates of unemployment among young people tend to be higher than those among the adult population. This tendency is significant for most European countries, where the youth unemployment rates are two to three times higher than the adult rates. The highest ratio of youth unemployment (number of unemployed in the 15-24 age group to the total population of the same age group) was recorded in Spain (17.8%). The EU27 average youth unemployment ratio was 9.0% in

2010. The Croatian position in this respect is better (11.9%) than in Latvia (13.9%) and Estonia (12.6%). Germany (5.1%) and Austria (5.2%) lead with the best records for the youth unemployment ratio.

Youth unemployment is somehow a more complex problem than adult unemployment. If there is a large imbalance between supply and demand for young workers, it clearly indicates a variety of problems due to structural reasons. Usually there are several factors that particularly influence the level of youth unemployment, such as the size of the youth labour force, skills and knowledge unadjusted to labour demand, lack of working experience, an inflexible education system, insecure and short-term forms of job contracts, the absence of proper national active labour measures, etc. It would appear that there are many different factors involved, on both the sides of the labour supply and the labour demand.

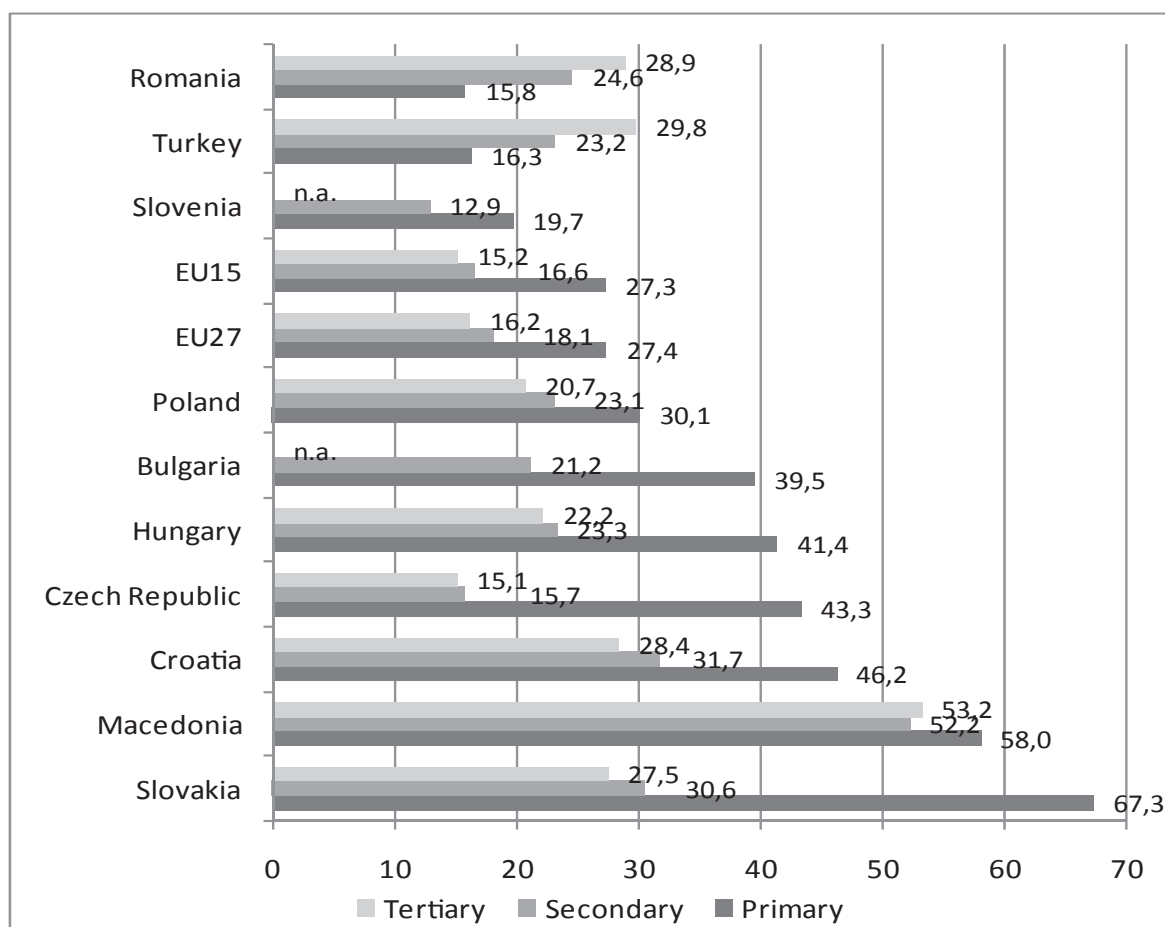
On the demand side employers give preference to temporary contracts for young people. Consequently, the main reason for stopping work for the teenage group (15-19 years) is entrance into education or the end of a temporary job contract. The majority of young adults (20-24 years) are dependent on temporary jobs and do not usually go back to education. From LFS data it seems that when young people are searching for jobs they favour using

informal networks among their family members and friends. However, there are some positive signs that more professional ways of approaching employers are also being used. It is possible to observe a huge gap between employers and educational institutions in developing common market-friendly channels for their mutual interest of young people employability (for example, currently no school or university in Croatia has a recruitment office).

With regard to the fact that education is one of the main factors on the supply side determining the employability of youth, traditional statistics on education are indicative but still not sufficient. In the majority of countries presented in figure 4, a lower level of education is seen as contributing to the youth unemployment rate (except in Turkey and Romania). Young people with primary education in Croatia had the highest rate of unemployment (46.2) in 2010 but in fact the rates for all groups, including those with tertiary education (28.4), are too high. According to a World Bank analysis (WB, 2009:19) youth unemployment in Croatia accounted for about one-third of the newly registered unemployed in 2009.

The age group between 15 to 24 years is not a homogeneous group in terms of supply characteristics such as education, skills, knowledge and work motivation.

Figure 4: Youth unemployment rate (age 15-24) by education level in 2010, country comparison



Source: Eurostat.

From the occupation analyses (JIM, 2011) we can observe that the somewhat static occupational structure of the unemployed reflects the lack of flexibility and adjustment in the education system and amongst the job seekers themselves. Young people in higher education in Croatia are not in a hurry to enter the job market. On the supply side, the rate of employment is directly dependent on the length and quality of the higher education system.

2.4.2 Employment Policies and Labour Market Institutions

2.4.2.1 Institutional Infrastructure for Employment Policies

Legislation on the labour market is of primary importance for establishing all other policies and institutions. A new Labour Act in Croatia

was adopted in 2009, and came into force on 1st January 2010. The law was aimed at further adjustments in keeping with EU laws, but because of its complexity and the difficulties in applying it, it is expected that it will lead to an increase in total labour costs, which will further undermine the international competitiveness of the Croatian economy. Although some of its provisions have been amended to boost employability and social security conditions among workers, it is believed that this new Labour Act will paradoxically contribute to endangering the overall level of social security in Croatia (Vukorepa, 2010).

The employment protection legislation index (EPL) was measured for the first and only time in Croatia in 2003 (Matković and Biondić, 2003) and was based on OECD methodology. This was done after a new Labour Act came

into force in 2003, which had the aim of making labour legislation more flexible. The EPL index for Croatia was 2.6, above the EU (2.3) and OECD average (OECD, Investment Reform Index, 2010). Thus, Croatia is characterised as having some of the most rigid employment protection regulations among the EU countries, but some of the least rigid in the SEE region. Employment protection legislation (EPL) is important because it affects job flow by reducing the hiring and firing of workers (job creation and job destruction), and because its effects are usually stronger during economic downturns. The main purpose of employment protection legislation is to provide insurance for workers against labour market risk. It encompasses three main assessments on how regular workers in employment are protected against individual dismissal, what the specific requirements are for collective dismissals, and how temporary forms of employment are regulated. In Croatia the index for regular employment is 2.6, for temporary employment 1.9, and for collective dismissals 4.3. Croatia has a much higher severance pay for long-time employment in comparison with other SEE countries except for Albania, Moldova and Montenegro (OECD; Investment Reform Index, 2010: p 93). Croatia maintains restricted regulation, especially in collective dismissals. Croatia requires prior notification of a third party (trade unions) in the case of a collective dismissal, although approval is not required, but at least three months have to pass following notification before implementation can take place.

In April 2008, the Government issued a Resolution adopting the *Joint Assessment of the Employment Policy (JAP)* priorities for the Republic of Croatia. This document presents a set of employment policy objectives necessary for advancing the country's labour market transformation and preparing the country for accession to the European Union. The JAP is essential for ad-

justing and developing the employment system in Croatia so that it will be able to implement the European Employment Strategy during the accession period and then on becoming a new member state. The JAP provides an assessment of the employment results encompassing the economic and labour market situation as well as employment policies, and it sets out employment challenges and action priorities in Croatia. The priorities which were set were based on the following labour market results: low employment rate, high long-term unemployment, unemployment among young people, mismatching of skills, low employability of vulnerable groups, and regional disparities. Expected progress in 2009 was seriously undermined by the economic crisis, so that the majority of challenges defined in the JAP were prolonged into the next year. Several joint JAP and JIM (Joint Memorandum on Social Inclusion) conferences were held in 2010 and 2011 to follow up on the progress achieved in implementing JIM and JAP recommendations. The National Employment Promotion Plan adopted for the period 2011-2012 was based on JAP and JIM goals.

2.4.2.2 Fiscal and Taxation Policies

The crisis caused government budget revenues to reduce, while expenditure started to increase. For instance, due to a huge loss of jobs more funds were needed for social assistance (Table 3), as well as for the ALMP programmes. In order to cope with this new situation, the government started to borrow, but it also introduced new measures on the revenue side. The most relevant changes in the Croatian taxation system in 2009 were:

- an increase in the standard VAT rate from 22% to 23%;

- the temporary introduction of a so-called "crisis tax" levied on the net income of households (for monthly net income between 3,000 and 6,000 HRK a 2% rate was applied, while on

net income above 6,000 HRK the rate was 4%); the abolition of all tax relief in the personal income tax system;

an increase in excise duties on tobacco and fuel.

The “crisis tax” at the 2% rate was abolished in June 2010, while the 4% rate was revoked in November 2010. In addition, in June 2010 the government made further changes to the law on personal income tax, by de-

creasing the tax brackets from four to three, reducing the lowest tax rate (from 15% to 12%). These changes were designed to create a lower tax burden for the employed group, but their ultimate effects remain to be seen. In order to stop excess borrowing and further increases in the state’s debt and deficit, the government brought in the Fiscal Responsibility Act, due to come into force in 2012.

Table 3. Social benefits from the government budget (2006-2010)

Year	Social benefits	Social security benefits		Social assistance benefits		Social benefits for employees	
	EUR	EUR	%	EUR	%	EUR	%
2006	6,034,926	4,271,110	70.77%	1,747,079	28.95%	16,737	0.28%
2007	6,567,119	4,657,624	70.92%	1,883,280	28.68%	26,216	0.40%
2008	7,281,271	5,205,662	71.49%	2,041,382	28.04%	34,227	0.47%
2009	7,650,154	5,532,430	72.32%	2,078,932	27.18%	38,791	0.51%
2010	7,810,153	5,902,683	75.58%	1,884,237	24.13%	23,232	0.30%

Source: MFIN.

It has been shown that high taxes on salaries contribute not only to higher unemployment, but also to lower participation and employment in the labour market (Cazes and Nesporova, 2007). Grdović Gnip and Tomić (2010), using data from 2008 for 28 countries (the EU plus Croatia), showed that, among the EU countries, Croatia belongs within a group of countries with a higher tax burden, a higher employment protection legislation index, and a higher unemployment rate (lower employment rate). In ad-

dition, they concluded that when the overall tax burden (including consumer taxes) is considered, its greatest impact is on Croatian workers in the lower economic bracket. Furthermore, Urban (2009) compared the tax wedge in OECD countries and Croatia in 2008 and concluded that the tax wedge in Croatia has a similar value to that in neighbouring countries, but one that is higher than the average value for OECD countries. The same holds true when the “crisis tax” is added to the calculation for Croatia.

Table 4. Payroll taxes and contributions for the average manufacturing worker in Croatia (2006-2010)

MONTHLY in EUR		2006	2007	2008	2009	2010
Gross wage	GW	816.22	879.15	926.03	1,002.61	988.92
SSC employer	SSC1	140.39	151.21	159.28	172.45	170.09
SSC employee	SSC2	163.24	175.83	185.21	200.52	197.78
Personal income tax	PIT	73.31	86.16	96.78	105.17	97.18
Net wage	NW	579.67	617.16	644.05	696.92	693.95
Total labour costs	TLC	956.61	1,030.36	1,085.31	1,175.06	1,159.01
Tax wedge	TW	39.40%	40.10%	40.66%	40.69%	40.13%
Personal average tax rate	PATR	28.98%	29.80%	30.45%	30.49%	29.83%

Note: An “average worker” corresponds to an adult full-time worker operating in sectors C to K, whose earnings are equal to the average wages of the workers in those sectors.

TW=(SSC1+SSC2+PIT)/TLC; PATR=(SSC2+PIT)/GW.

Source: CBS and authors’ calculation.

Table 4 shows how taxes and social security contributions affect wages in Croatia. For an 'average worker', this is quite high: 40% of total labour costs goes into taxes and social security contributions, while 30% of the gross wage is paid directly by employees (in the form of income tax and employee contributions). If we compare these results with some other (EU) countries Croatia is somewhere in the middle; below most of the developed EU countries, but above most of the NMS (Tomić and Grdović Gnip, 2011). The 'below-average' worker (earning 67% of the average worker's wage) is burdened less (38% TW and 27% PATR), while the 'above-average' worker (earning 167% of the average worker's wage) is burdened more (45% TW and 35% PATR).

2.4.2.3 Education Policy

The overall education results for the Croatian population show an improvement with respect to educational levels, because the younger generations are achieving better results in tertiary education. The number of pupils and students in education is decreasing from year to year: this is a demographic effect which was anticipated. In tandem with this demographic change, the ratio of pupils per teacher in Croatia has been constantly improving over the years.

The educational structure for the young Croatian population has slowly improved in the last decade, but is still unfavourable. The percentage of all 18-year-olds who were still in any kind of education (all ISCED levels) was 68.6 in 2010, which, although less than in many EU countries (Eurostat), still indicates that many young people were remaining in education and not abandoning their efforts to improve their knowledge and skills. In the 20-24 age group 95.3% had completed at least upper secondary education, which was much

better in comparison with the average in EU27 (79.0%) and EU15 (76.6%). Data on graduates (ISCED 5-6) aged 20-29 in mathematics, science and technology, expressed per 1000 of the population in their age group, showed 12.8 (male 16.5), which even bettered Norway's 9.0 (male 12.4), or the USA's 10.3 (male 13.9). The same trend of improvement can be observed relating to lesser attainment levels (ISCED 2 or less): the share of the 25 to 34-year-old age group (as the percentage of the population) was 10.6% in 2010 compared to 13.3% in 2006. Within the group ranging from 25 to 64 years old, those with the lowest education levels decreased from 25.9% in 2006 to 23.6% in 2010. The over-65s had a substantial share at 67.6% in 2006, which decreased to 59.8% in 2010. However, the indicator of life-long learning expressed as a percentage of the adult population aged 25 to 64 participating in education and training shows poor results, only 2.0% in 2010, indicating strong backwardness, in contrast with the average of 9.1% in EU27 and 10.4% in EU15. Life-long learning is not embedded or developed strongly enough as an integral part of Croatia's working and business culture.

Public expenditure on education in 2008 represented approximately 4.3% of GDP in Croatia, which is close to the average of 5% of GDP in EU27 (Eurostat, Statistics in focus, 2008). Out of that, 1.86% of GDP is spent on primary education, 0.93% on secondary and 0.95% on tertiary. Private expenditure on education was 0.36% of GDP, which was half the EU27 average of 0.75% of GDP. There are significant differences in expenditure on private education among European countries, but all of them are using the same schema that includes major public funding of educational institutions and minor private funding. In Croatia, the distribution of expenditure for educational institutions between public and private sources is 92% vs. 8%. Although there

is substantial expenditure on public education in Croatia, the amount allocated for financial aid for pupils and students is too low, at 0.68 overall and 3.11 for students in tertiary education, expressed as percentages of the total public expenditure on education. There are considerable variations in the share of financial support for students in public education expenditure among EU countries. Financial aid, either through transfers and social benefits to students or their families (grants and scholarships), or through loans given directly to the students, is an important part of education expenditure because it helps to provide equality of access to education. Matkovic, Tomic and Vehovec (2010) in their research on efficiency and accessibility in Croatia's higher education system found that students' chances of completing their studies are primarily related to their socio-economic status, and completion is especially low for students from the lower socio-economic strata who do not pay tuition fees. This suggests that the existing instruments of financial support for non-academic costs are inadequate for providing equal access to tertiary education for all in Croatia.

The overall education and training system should be assessed from the perspective of achieving goals such as quality and effectiveness, inclusivity and international accessibility. In the last decade Croatia has made improvements in these areas, but there is plenty of room for further development in relation to each of these three goals.

Firstly, the quality of education policy has been measured through the results of PISA tests (OECD, 2010) for 15-year-old pupils in mathematics, reading and science, and Croatia's result of 474 points was better than those of all the southeast European countries (SEE) but the lowest in relation to the central and eastern European countries (CEE). Croatian pupils achieved better results in science (486) than in reading (476) and mathematics

(460). Comparing PISA outcome results with input data on public expenditure on educational institutions per pupil/student (in thousands of euros pps, Eurostat) Croatia shows relatively poor results when compared with Estonia, Poland, Slovakia, Latvia and Lithuania, countries with lower public expenditure on educational institutions and higher PISA ranking results. This means that there is a need to evaluate the many possible factors influencing this weaker effectiveness of public educational expenditure. Secondly, the Legatum Prosperity Index (2010) ranked education in Croatia 44th among 110 countries. Croatia had just 90% of primary-age children in school, and was rated 72nd within the Index. However, this indicator improved at secondary and tertiary levels, where enrolment rates of 94% and 47% ranked Croatia at 41st and 44th place respectively. More effective public financial aid in tertiary education will certainly improve these results. Inclusivity or accessibility of education for everyone in Croatia is weakest in respect of primary education. On the evidence of the Eurostat figures, life-long learning is still underdeveloped and this must change in order to improve the quality of human resources. Thirdly, International accessibility is also developing only slowly, and student mobility should be encouraged more strongly. The Erasmus programme for funding study abroad, which started in 2010, is an example showing the right direction for improving this goal.

2.4.2.4 Active Labour Market Policies (ALMP)

Active employment policies are primarily intended as an aid for those unemployed who have most difficulties with employment. As part of the mechanisms of collective solidarity they aim to support vulnerable groups with job assistance, public works, employment subsidies, retraining and skill upgrad-

ing, self-employment, wage subsidies, etc. Therefore, there are different active policies that achieve goals of increasing employability in various ways. Such measures can have only a moderate effect on increasing the overall activity and reducing long-term and structural unemployment.

Active labour market policies (ALMPs) play a negligible role in facilitating the matching of labour demand and labour supply as a response to economic shocks in most SEE countries in comparison with EU15. ALMP expenditure was lower in Croatia than in other European countries (less than 0.05 of GDP) and much less in comparison with passive, income support programmes, which accounted for 0.32% of GDP in 2006 (Gligorov et al, 2008:60). Expenditure data on active and passive measures in Croatia are not yet included in Eurostat statistics or in OECD Employment statistics, which is a big hindrance to proper comparative analysis. Total spending on all labour market programmes, active and passive, is very low, roughly 0.4% of GDP, which is substantially less than in EU countries at similar income levels (WB and UNDP, 2010: 42)

The Croatian Employment Service (CES) is the institution responsible for developing and implementing ALMP measures. Most of the funds for ALMP are allocated from the central government budget with additional funds from local administration bodies. The efficiency of these measures needs to be demonstrated by assessing their effects and monitoring costs, which should be an integral part of the

process of implementing active employment measures in Croatia. There has been a chronic failure to monitor and analyse the effectiveness of final active employment measures, but the CES began preparing the implementation of ALMP analysis assessment in 2011.

ALMP measures that were applied at the time of the pre-crisis expansion were focused on solving the structural problems of unemployment. With the development of the crisis they could not cover, or mitigate, the lack of demand for labour, which has led to a rapid growth of inflows into unemployment. Inflows into unemployment are very uneven between different areas and counties in Croatia. Moreover, the crisis has strongly affected even the most educated segments of the labour force, which does not happen in time of growth. In mid-summer 2009, due to the deepened crisis and fears of increasing unemployment, the government adopted emergency measures to support the preservation of jobs. At the beginning of 2010 there were only two applications from enterprises and preservation of 27 jobs in total. Essentially, this measure was designed in a positive way, but in practice it was a complete fiasco. The conditions for support were not properly set, and the enterprises showed no interest. Also, this failure indicates that measures for preserving jobs have a shorter-range impact than those for job creation. ALMP measures continued in 2010 with increased funding in attempts to encompass more unemployed persons.

Table 5. Structure of ALMP measures spent in %

ALMP	2006	2007	2008	2009	2010
Public works	3.3	2.5	5.6	37.4	47.0
Training for unknown employer	7.3	14.1	15.7	38.9	16.7
Occupational training without commencing employment	-	-	-	-	0.1
Subtotal of public works and training	12.7	19.9	25.3	76.3	63.8
Hiring subsidy for disadvantaged workers	9.1	10.4	9.4	1.8	1.8
Hiring subsidy for older workers	21.1	20.4	19.5	3.4	4.4
Hiring subsidy for long-term unemployed	29.3	27.4	24.8	8.8	13.8
Hiring subsidy for youth w/o experience	27.8	21.9	21.0	6.0	10.4
Self-employment subsidy for long-term unemployed	-	-	-	-	4.3
Training for known employer	2.1	3.3	4.0	3.7	1.5
Subtotal of subsidies for employment and education	87.3	80.2	74.7	23.7	36.2

Source: WB and UNDP, 2010:4, CES, authors' calculation.

Table 5 demonstrates a change in the structure of ALMP measures due to the expansion of the crisis. In 2009 expenditure on active employment measures mostly covered education for an unknown employer and public works. The measures covered employment for 6,296 persons in total. In 2010, when the crisis deepened, the total funding for ALMP was increased by approximately 110%, and the structure of measures was slightly modified in favour of increased subsidies for employment and education. Because the funding for ALMP more than doubled, the number of people covered was twice as high (13,088), and the coverage ratio (the percentage of the unemployed who participated in ALMP, such as training, subsidised employment or public works) increased from 2.5% in 2009 to 4.1% in 2010.

The mix of active labour programmes in Croatia was adjusted to the labour market conditions in 2009 after the eruption of the global financial and economic crisis. During the economic downturn, because of demand deficiency, ALMP measures were focused on supporting labour demand, fostering job creation and targeting more regular workers and public works as well as wage subsidies and self-employment. In 2010, as the crisis con-

tinued, ALMP measures were concentrated more on short-term labour demand support.

In future favourable times of economic recovery and expansion, re-training schemes (in particular for the older cohorts) and support for educational choices and opportunities (especially for the young) would be important components of a strategy to deal with long-running structural mismatch problems.

2.4.2.5 SWOT-Analysis

From the perspective of evaluating strengths, weaknesses, opportunities and threats for employment policies in Croatia there are lot of internal and external factors influencing the final results. Employment policies depend on many other economic policies, among which fiscal, tax and educational policies are certainly the most powerful. Fiscal policy can foster both supply and demand on the labour market, through efficient expenditure. In addition, ALMPs are closely connected with fiscal policy. Tax policy, which is closely connected to fiscal policy, can strongly influence total labour costs, which otherwise often serve as an impediment for demand for labour, thus causing lower employment and higher unemployment. Educational policy can engender appropriate

skills and knowledge, allowing the labour supply to 'match' labour demand more easily.

Taking into account previous policy analyses, an assessment of SWOT dimensions is presented in table 6. Evidently, there are many

weaknesses concerning different employment policies in Croatia. However, there are visible opportunities in the future, especially after joining the EU, which could lead to positive developments on the Croatian labour market.

Table 6. SWOT analysis for employment policies

Strengths	Weaknesses
<ul style="list-style-type: none"> • introduction of fiscal responsibility act • improvement of educational structure due to better education of young population • ALMP measures are designed in accordance with country economic conditions 	<ul style="list-style-type: none"> • rigid employment protection legislation • large fiscal deficit • income tax burden • insufficient life-long learning • scarce financial aid in public expenditure on education • small share of private expenditure on education • lower efficiency of public expenditure on education • low expenditure on ALMP
Opportunities	Threats
<ul style="list-style-type: none"> • accession to the EU • more mobility opportunities for education and training • access to more (EU) funds for employment policies • improving country employment statistics 	<ul style="list-style-type: none"> • unfavourable economic conditions in the region • higher fiscal impediment after accession to EU • dubious monitoring and evaluation of ALMP

2.4.3 Social Dialogue

Tripartite social dialogue at national level is relatively well developed and its influence on policy-making via regular consultations within the Economic and Social Council is notable. However, bipartite dialogue is much weaker. It takes place mostly at company level, and is very poor in small companies. There are few sector-level agreements outside the public sector. The coverage rate of collective agreements is estimated at 60%. The wider public sector including state-owned enterprises is more than 70% covered, while coverage in the private sector is estimated at 45%, most of which is due to the extension of sector-level agreements.²⁶

The trade union scene is highly fragmented with more than 500 registered trade

unions. There are five major union associations that are representative enough to participate in the work of the Economic and Social Council. These are the Union of Autonomous Trade Unions of Croatia (SSSH), the Independent Croatian Trade Unions (NHS), the Croatian Trade Union Association (HUS), the Association of Workers' Trade Unions of Croatia (URSH) and the Matrix of Croatian Trade Unions (Matica). These associations cover around 90% of trade union membership in the country. The trade union density of around 35% is much higher in the public sector than in the private sector. Unions are much better organised in privatised, formerly state-owned firms than in newly-established private companies. The Croatian Employers' Association (HUP), established in 1993, is the dominant employers' organisation today, comprising about 25 branch associations.

²⁶ More on social dialogue and collective bargaining in Croatia in Nestić and Rasić Bakarić (2010), Bagić (2010) and Rebać (2010).

In 1994 the government, employers and trade unions established the Economic and Social Council (ESC) as three social partners, initiating institutional tripartite social dialogue. The ESC operates at national level as well as county level. Several sectoral social councils were established, for example in the sectors of textiles, footwear, leather and rubber, forestry and the wood processing industry. To facilitate social dialogue further and improve social partnership, the government established the Office for Social Partnership in Croatia in 2001. More recently, the Office has been engaged in providing logistic and expert support in solving collective and individual labour disputes. Mediation in collective disputes has expanded from 52 disputes in 2008, to 88 disputes in 2009, and 122 disputes in 2010.²⁷ The Office for Social Partnership estimated successful collective mediation coverage at around 37%. After withdrawals and including conditional resolutions in the calculations, this rate increases to 59%. In the period from 2007 to 2009 there were also 120 projects on mediation in individual labour disputes within two state companies (Croatian Post and Croatian Forests) and one private company (Končar-Electrical Industry). Meetings have been held on a regular basis with representatives of trade unions and employers aimed to develop a mediation system at a micro level. This has led to a reduced burden on the courts, speedier resolution of disputes, and significant savings in terms of time and money.

Unfortunately, the relatively well-developed institutional arrangements have not been followed by unofficial institutions such as the culture of social dialogue, which needs more time to be developed. Šokčević (2009: 322) warns of "a deep division in values and interests between actors of collective bargaining" and brings into question the competence of key social participants.

The work of the Economic and Social Council was interrupted in 2010, but resumed after several months. This happened because the trade union confederations were dissatisfied with voting procedures in the Council, with the fact that they were given only a short time to study the materials sent out by state bodies, and with the Government's initiative to make amendments to the Labour Act. According to the new Rules of Procedure, whose adoption was a pre-condition for the restoration of the work of the ESC, there will no longer be voting on each item on the agenda, which will eliminate the possibility of outvoting. In situations where no consensus can be reached, the social partners may express their dissenting opinions, which will be published on the website of the Office for Social Partnership. Another innovation is that the ESC will no longer be considering legislative proposals, but only strategic topics, and will establish common goals in implementing national policies and strategies. Proposals for laws and subordinate regulations will be discussed by the ESC working bodies, i.e. commissions and working groups specifically established to consider certain issues. The tripartite expert working group agreed upon the substance of co-ordination of certain issues in the labour legislation, based on proposals made by trade unions and employers. Social dialogue was also conducted normally within the framework of a number of other tripartite bodies consisting of representatives of the Government, trade union confederations and employers, as well as through the participation of employers' and trade union representatives in the activities of individual parliamentary committees.

The state of social dialogue was also of interest in the accession negotiations between Croatia and the EU. The most recent progress Report by the Commission (EC, 2011) recognised some improvement, but also some weaknesses in this

²⁷ Information from the web page of the Office for Social Partnership - (<http://www.socijalno-partnerstvo.hr/default.aspx?id=52>)

area. While emphasising that solid progress has occurred in establishing mediation in collective and individual labour disputes at county courts, the EC report states that capacity-building of social partners through strengthening social dialogue within decision-making processes and in policy design remains a key issue to be addressed.

2.4.4 Demographic Trends and Migration Expectations

2.4.4.1 Demographic Trends

Croatia is facing demographic changes of population aging and decline, due to low fertility rates and increasing life expectancy that follow similar trends in many European countries. Demographic projections by the Croatian Central Bureau of Statistics show that the same trends can be expected over a long period of time (until 2060). According to the latest census in Croatia the population stood at 4,290,612 in 2011.²⁸ Compared with the figures from ten years previously, there was a drop of around 150,000, which is equivalent to the size of one of our larger cities.

The decrease in the total population, together with the projections of the same trends continuing in the future, affects not

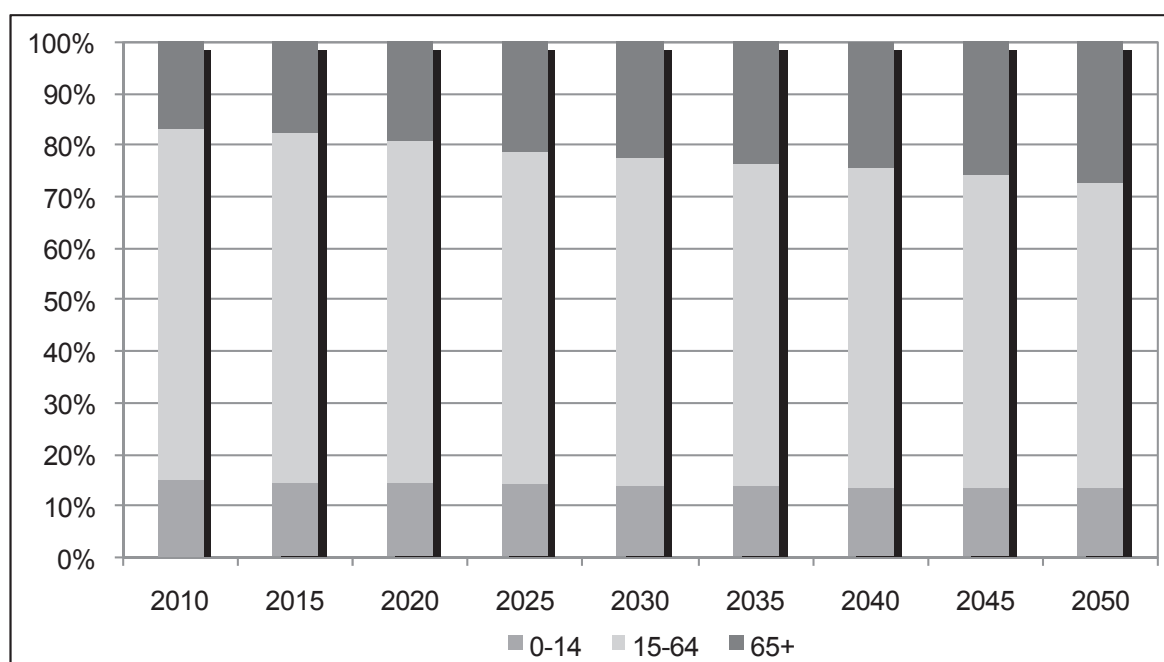
only population size but also its structure. In figure 5 it can be observed that the number of young people (age 0-14) is slowly but steadily decreasing, while the older cohort of the population (age 65+) is dramatically increasing over time. From the economic point of view, the essential part of demographic changes is their impact on the size and composition of the working-age population (age 15-64).²⁹

By 2050, the working-age population in Croatia could fall by 782,000, or 31% as compared to the situation in 2005 (Table 7). The severest decline will be in the number of younger working-age people (15-24), a drop of 36%. Continuous decline is foreseen for the population of prime working age (25-54 years), down by 31% by 2050, as compared with 2005. The number of older workers (55-64) will rise in the years to come but then it will decline as part of the trend of shrinking in the overall population. By 2030, there will be 10% more people in the age range 55-64 than in 2005 and their share in the working-age population will increase to almost 22%, up from 17% in 2005. From 2030 to 2050, the number of older workers is projected to decrease by 7%. However, the proportion of older workers in the working-age population will increase further to over 23% by 2050.

²⁸ CBS, 2011.

²⁹ More on the Croatian demographic reality and labour market challenges in Svaljek and Nestic (2008).

Figure 5: Share of youth, working-age population and elderly in total population



Source: CBS.

Table 7: Working-age population trends in Croatia, 2005-2050

	Population in 000s			Change in %		
	2005	2030	2050	2005-2030	2030-2050	2005-2050
Young people (15-24 years)	584.7	416.1	373.0	-28.8%	-10.4%	-36.2%
Prime working-age (25-54)	1,896.1	1,611.6	1,312.7	-15.0%	-18.5%	-30.8%
Older workers (55-64)	505.4	558.3	518.8	10.5%	-7.1%	2.7%
Working-age population (WAP) (15-64)	2,986.2	2,586.0	2,204.5	-15.0%	-18.5%	-30.8%
	Ratio			Change in percentage points		
Older workers/WAP	16.9%	21.6%	23.5%	4.7%	1.9%	6.6%
Old age dependency ratio (65+ /WAP)	25.1%	35.8%	46.3%	10.8%	10.5%	21.3%

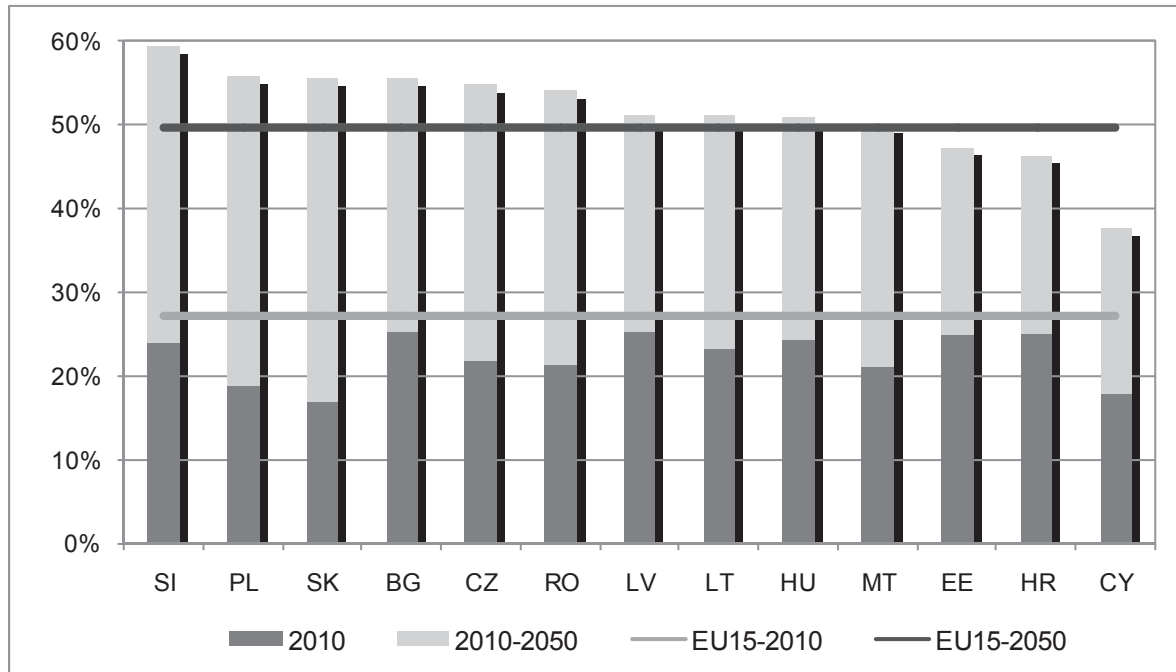
Note: Demographic projection in the baseline variant (medium fertility and medium migration).

Source: CBS.

Unfavourable demographic trends are reflected in the increasing old age dependency ratio, which is also not specific to Croatia. The

number of elderly persons (aged 65 years and more) per working-age persons (15-64) will almost double by 2050 (Figure 6).

Figure 6: Old age dependency ratio, country comparison (age 65+ over age 15-64)



Source: Eurostat and CBS.

Long-term demographic changes in the population will bring about structural changes in the labour supply, which will have deep effects on the labour market in Croatia (Vehovec, 2009). The structural changes in the population will also need to be taken into account in many aspects of the future economic and social policies in Croatia.

With reference to the specific demographic problems of labour force aging and shrinking there is still not enough progress in the employment rates of older workers. Demographic changes create a clear economic need for an increased work force, which could be satisfied domestically by keeping older workers in the labour market.³⁰ The Croatian government recently passed a new law on higher age limits for old-age retirement, having used

a mass early retirement policy for almost two decades. Unfortunately, Croatia had used the concept of early retirement schemes in its restructuring processes to avoid unwanted political repercussions. However, the social costs of the early retirement policy have increased, and they seriously jeopardise the sustainability of the public pension system.

Regardless of current or periodical features of employment and unemployment on the labour market, on the supply side there is one long-term structural effect caused by demographic changes: the Croatian population is aging. This trend started even before the transition in the 1990s, and has continued over recent decades, which has serious implications for the working-age population.

³⁰ Švaljek, Sandra, 2011, Demographic Aging and its Economic Consequences in Croatia, in: Population Aging in Central and Eastern Europe, Andreas Hoff (ed.), pp. 135-151.

2.4.4.2 Migration Expectations

The net migration balance in Croatia was positive over a long period of time but has recently

changed. The number of immigrants in 2009 decreased in comparison with 2008 and previous years by over 40% and in the same period the number of emigrants increased by 33% (table 8).

Table 8. Migration of population in Croatia, 2005 - 2009.

Year	Immigrants	Emigrants	Net migration balance	Rate of net migration
2005	14,230	6,012	8,218	1.9
2006	14,978	7,692	7,286	1.6
2007	14,622	9,002	5,620	1.3
2008	14,541	7,488	7,053	1.6
2009	8,468	9,940	-1,472	-0.3

Source: CBS - Central Bureau of Statistics, Migration of population of RH, Statistical information, 2011 (<http://www.dzs.hr>)

The negative net migration balance was probably related not only to the global economic and financial crisis but also to the specific domestic economic and political crisis in Croatia. A significant reduction in the demand for foreign labour in the building, construction and service sectors started at the beginning of 2009. Similar migration results can be expected in 2010 and will continue for as long as Croatia fails to attract a new wave of foreign investments or to improve public administration efficiency. In terms of numbers, net migration is not significantly influencing the size of the population. In the future, given the perspective of demographic aging, Croatia will need a much more positive net migration in the working age population. In the absence of this, the domestic workforce will have to increase their productivity significantly in order to prevent the rate of economic growth from lowering. Vidovic (2009) is also of the opinion that levels of migration are rather low, and there is expectation of limited future migration flows, even if overall economic conditions improve considerably.

2.4.5 Conclusion

The current labour market situation at the end of 2011 in Croatia does not look promising. There are many reasons for this. One is the effect of the global financial and economic crisis that has hit many economies in the world, including Croatia's, in 2008. Croatia has recorded a negative percentage change of real GDP since 2009, and this has had predictable negative effects on labour demand, resulting in increasing unemployment rates, from 9.1% in 2009 to 11.8% in 2010. The pattern of unemployment in Croatia includes big differences among NUTS2 regions as well as among counties (NUTS3). Furthermore, there are differences between genders, age groups, and levels of education: men were hit more than women; the youngest and oldest more than prime-age workers; and the better educated more than the less educated. Shrinking labour demand is the natural result of reduced economic activity in times of crisis. The problem is knowing how long it will take for the economy to recover, and whether it is more dependent on external economic development trends or on internal employment possibilities and conditions. Croatia already

has the lowest employment rate among all old and new European countries, which clearly indicates that there are internal structural reasons for this unfavourable situation. The core problem of Croatian employment is the low employment rate of the prime-age cohort, with a significant number of prime-age workers either unemployed or working in the grey economy. Low youth employment indicates that young people are remaining in education for longer, and very often their qualifications do not match the needs of the labour demand, once they eventually enter the labour market. However, responsibility for the lack of the necessary dynamics of labour flow lies more on the labour demand side. When a country is dogged by an absence of domestic and foreign investments, with more rigid employment protection laws than in other countries, and with a higher tax burden for employers, it is very difficult to create new jobs and expand overall labour demand. In the situation of a complete economic downturn, employment policies promoting active labour measures are the right incentives for helping labour demand. Unfortunately, active labour market policies play a negligible role (less than 0.05% of GDP) in facilitating the matching of labour supply and demand in Croatia. Examination of all aspects of employment policies in the SWOT analysis reveals that there are more weaknesses than strengths among in-

ternal factors, such as the rigid employment protection legislation, large fiscal deficit, insufficient practice of life-long learning, scant financial aid for students, lower efficiency of public expenditure on education and low expenditure on active labour market policies. Among the external factors there are some positive expectations which are connected with accession to the European Union, such as increased mobility opportunities for education and training, and the anticipation of access to more funds from the EU. The unfavourable economic conditions that still prevail in the EU will reduce expectations for the next accession wave, and if this happens accession will not influence economic activity in the new member states as it did in the last two waves. Croatia must rely more on its internal strengths and institutional conditions in order to improve employment possibilities. The political elections at the end of 2011 might bring some positive steps towards economic recovery, which is much needed. Regardless of temporary economic slowdowns, Croatia needs to take into account the population aging and the workforce shrinking, which in the long run will change the characteristics of the overall labour force. It is unlikely that migration will contribute significantly to the capacity of the workforce, which again makes internal capacity building and adjustment of prime importance.

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2.5 The Job Crisis in Kosovo* – An Assessment of the Country's Employment Policy

Jeton Mehmeti

Abstract

Unemployment is one of the major challenges that every Kosovo government has faced. Today the unemployment level has reached staggering figures of between 39% and 48%, depending on the source. With only 25% of the working age group employed, Kosovo has the lowest employment in Europe. The public sector remains the highest employment agency with more than 70,000 people. Although the number of registered private firms has constantly increased, the informal sector remains very strong. Around 30% of overall businesses operate in the informal economy. Even though a social assistance programme exists, due to the tight fiscal space it has low coverage, leaving over 60% of the poor out of reach. Around 30,000 people join the labour market every year and the number of those who reach retirement age is much lower. With such an increasing number of job seekers and with little work opportunities, the government should seriously think about a more efficient active and passive employment policy. Reviewing Employment Strategy 2010-2012 should be the starting point.

Introduction

Kosovo is not in the same economic situation it was in during the late 90s. Significant progress has been achieved but not to the level of expectations. The war of 1999 was devastating for Kosovo's economic and social life. After being 2000 per capita income, it recovered quickly, from 300 euro in 2000 to 1,982 euro in 2010. The rapid economic recovery after the war was fuelled by the combination of extensive donor aid, incomes from the international presence and the remittances from migrant workers. Despite this success, Kosovo governments have failed to achieve significant progress and meet people's expectations. Poverty remains high, living standards are not improving, unemployment has reached staggering figures and social programmes seem inadequate. There are many macroeconomic issues the government must deal with. Economic growth has been solid over the years

and, with its current GDP of 4.2 billion euro, Kosovo remains one of the poorest countries in Europe. Trade deficit remains very high. Foreign direct investments are low and remittances are declining. On the other hand, people's frustration with the socio-economic conditions makes many of them see migration as a solution for their survival.

Employment in Kosovo remains low. With only 25% of the working age group employed, Kosovo has the lowest employment in Europe. Unemployment is one of the major challenges that every government has been facing. Unemployment has reached staggering figures of between 39%-48%, depending on the source. The long term makes the situation even worse. Six out of seven unemployed people have been unemployed for more than a year. Unemployment among young people is a waste of human capital. Young people make half of Kosovo's population, yet they make 72% of the overall unemployed. Some of them work in the informal economy, another phenomenon that is undermining economic growth and social welfare.

* "This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence"

The government has yet to come up with a concrete strategy on how to create jobs and decrease unemployment. Although employment offices and training centres have been established throughout the country, the total number of registered job seekers over the years shows that only a few have benefited from such services. The public sector remains the highest employment agency with more than 70,000 people. The number of registered private firms has constantly increased, but most of them employ less than five people. Entrepreneurship has been largely promoted as a way of self-employment, and those who have the courage to create a company face bureaucratic procedures for registering a business and very high interest loans from the banks.

The Labour Law, passed in late 2010, looks good and in general it guarantees workers' rights. It is the duty of Labour Inspectorate to make sure the law is implemented. Social dialogue also needs to improve, as the current Economic – Social Council has failed to persuade the government on the minimum wage. A lot has changed in the last decade, but more is needed.

2.5.1 Labour Market Situation

To policy makers data and statistics are of paramount importance. When there are no data available, the problem examination becomes a hard task to do. Accurate data allow policy experts to come up with more accurate and effective policy recommendations. Available data are essential when examining the unemployment situation of a country. In Kosovo the issue of high unemployment has been addressed in studies conducted by the government, civil society organisations and international organisations like the World Bank. In each study there is more of a situation analysis than there are concrete recommendations on how to solve the unemployment phenomenon. The govern-

ment has published its own strategy called Employment Strategy 2010-2012.

The lack of census and accurate data on the specifics of Kosovo population had been a major obstacle for researchers and policy makers dealing with the labour market situation. After the thirty years since the last census of 1981, Kosovo had a census of the population in early 2011. The census was badly organised and did not cover the entire population because it was boycotted by the Serb community living in the northern part of Kosovo. The preliminary results show that Kosovo's population is around 1.8 million. However, most of research is based on the census of 1981, which estimates that the resident population of Kosovo is between 1.8 to 2 million. Kosovo's population is characterised as a young population. Young men and women of Kosovo represent around 50% of the population. A young population is indeed a great asset for the new country, but a pressing challenge at the same time, since jobs are scarce and unemployment is rising.

Employment in Kosovo remains very low. Although the economy has been gradually recovering since its major devastation during the war, Kosovo has shown constantly high levels of unemployment. Despite rapid economic growth during 2003-2008, the employment level has remained stable and low. With an employment rate of around 25%, Kosovo has the lowest employment level in Europe (World Bank, 2010)³¹. On one hand, the working age population is increasing while the number of people becoming employed remains very low. The employment level has more or less stayed the same since 2006. In 2006 only 29% of the working age population was employed. In the following years this number further decreased. In 2007 the employment level went down to 27%, in 2008 the employment rate reached

³¹ World Bank, Unlocking growth potential: strategies, policies, actions

24% and till today it stays around the same figure. These figures not only show that finding a job in Kosovo is a very challenging task. It also indicates that at a macroeconomic level Kosovo is far from EU standards. Kosovo's employment rate of 25% is significantly lower than the average for EU-27 countries (66%) and definitely far from the Lisbon target of 70% for EU countries. Kosovo is lagging behind EU candidate countries as well as behind neighbouring countries. Statistics for 2009 shows that the employment level in Croatia was 57%, whereas in Macedonia it was 43%. Albania (in 2008) had an employment level of 54%, Serbia had the same rate, and Montenegro had a 41% level of employment. Again, informality in Kosovo remains very high and the existence of an informal economy implies that employment is slightly higher than the official records. But still comparative statistics show that Kosovo lags far behind EU standards.

Unemployment is one of the major challenges for the government today. There are different figures with regard to the total pool of unemployment in Kosovo. The World Bank (2010) estimates that the unemployment level stands at 48%, which determines Kosovo with the weakest employment track record in Europe. Figures from the government show a slightly lower level of unemployment. According to the Ministry of Labour and Social Welfare, the unemployment level is between 39%-41%. Either figure might not be very accurate because Kosovo's economy is characterised by a large informal sector, in which, according to the Ministry of Labour, around 30% of overall businesses operate. Another problem associated with unemployment is that many people who are jobless stay idle. In 2008 it was estimated that two thirds of the jobless are not even looking for a job.³² These are discouraged workers who are out of a job and out of any schooling or training.

Youth unemployment is a major problem within the unemployment problem in Kosovo. The issue of youth unemployment has been studied extensively in the last decade. Youth is considered as a temporary phase in the life cycle, during the age of 15 to 25, which is characterised by a school to work transition. Young people are seen as inexperienced workers, eager to find a job and start a career, whilst being quite undetermined new workers, who may or may not stick to their jobs. Kosovo is characterised by a very young population, which, comparatively speaking, means Kosovo has the youngest population in Europe. Around 50% of population is younger than 25. This category is among the least employed in Kosovo. According to 2009 Labour Force Survey (LFS) estimates, young people aged 15-24 make up only 9% of the overall employed people, or 72% of the overall unemployed people.³³ This low percentage could be a result of young people pursuing higher education, but it could also be a result of difficulties in entering the job market for first time job seekers. Youth unemployment requires special attention, especially as many young people will enter the job market in upcoming years. In 2008 the World Bank estimated that around 200,000 young people will reach working age in the next five years, while the number of people reaching retirement age will be around 60,000. Youth unemployment in Kosovo is five times higher compared to EU countries. Without any serious plans on the table, the government should realise that such a high number of unemployed may have political, social and economical consequences for the entire country. Neglecting youth unemployment can have social and economical consequences for the country. First of all, it is a loss of human capital as the lack of working skills, little training, experience and the

³² World Bank, Unlocking growth potential: strategies, policies, actions, page 56

³³ Statistical Office of Kosovo, Labour Force Survey 2009

small amount of working time, decreases the employee's value on the labour market. Unquestionably, it is also a waste of youth potential, since they are not given a chance to show their strength, enthusiasm and energy. This kind of unproductive youth is also a burden for the country's economy, due to the lack of income they generate for the state, and the inability to push their children into a good education and career. An unproductive youth is also more likely to be a target for recruitment by urban gangs and criminal organisations. In addition, an educated and yet unemployed youth could lead towards social unrest. More education means higher frustration for unemployed people. Kosovo's greatest asset – a young population – could be its social destabilising factor. It could be considered as a 'ticking time bomb'.

Long-term unemployment, by the definition of being unemployed for a period longer than one year, is a common phenomenon in Kosovo. According to 2009 LFS, 6 out of 7 unemployed people in Kosovo, both male and female, have been without a job for more than a year. This phenomenon of long term unemployment has not changed for years in Kosovo. This implies that it is equally difficult to find a job for a person who loses a job and for a person who is looking for job. In other words, chances of finding a job in general are slim. Although long-term unemployment usually affects adults, this phenomenon is also affecting youth. In fact, around 44% of all unemployed youth in Kosovo could be categorised as long-term unemployed.³⁴ The youth of Kosovo also face a long transition from school to work. It takes approximately ten years for young males to make the transition from school to work.³⁵ This indeed is a long period, compared, for example, to

Macedonia, where it takes four to five years, or compared to developed countries where it takes even less time for young entrants to get a stable job. Another characteristic of young workers in Kosovo is that they are usually prone to discrimination with regard to their labour rights. Although labour relations are regulated by the Labour Law, young workers often tend to work more than the allowed working hours, they lack a proper employment contract, they are not entitled to paid leave, and most of them are not registered in social security. A low quality of jobs usually affects youth from poor and vulnerable groups. This is a result of poor enforcement and low awareness of the labour law, as well as the result of a lack of jobs in the formal sector. A high level of unemployment is yet the main factor that makes young people accept a job in the informal sector, assuming that the job experience may contribute to eventually getting a job in the formal sector.

Gender misbalance is also present among the employed people in Kosovo. Although it is difficult for both genders to find a job, employment among women is relatively low, and lower compared to men. Only 11% of working-age women are employed (LES 2009), which is significantly lower than the percentage of males, which stands at 36%. This is the lowest rate in the region and very far from the Lisbon target for female employment (60%). This large gender discrepancy is related to different factors, starting with the scarcity of jobs itself, the educational level among women, the nature of jobs available and the cultural norms. However, judging from the number of jobseekers, women are equally interested in finding jobs, just like men. Out of 336,126 registered job seekers 162,224 of them are female, which makes almost half of the total number of jobseekers. Increasing female employment has great advantages as it may lead towards poverty

³⁴ World Bank, Kosovo youth in jeopardy

³⁵ Ibid.

reduction, since women in Kosovo make up 49% of population and around 48% of the working age group.

Level of education and living area are two factors equally significant on the labour market in Kosovo. The unemployment rate among people living in rural areas is higher compared to urban areas. People living in urban areas seem to have more job opportunities, since the employment level of people living in urban areas is 31%, compared to 20% in rural areas. Education qualification also makes a difference in terms of employment opportunities. The employment level of those with lower secondary education or less is only 9%, a significant difference from those with tertiary education, which make up 76% of employment.

The informal economy is another widespread phenomenon in Kosovo. Informality indeed undermines economic growth and social welfare. The informal sector accounts for a significant share of economic activity in Kosovo. A 2007 estimation based on household consumption data indicated that informal activities accounted for between a quarter and a third of GDP (Sen and Kirkpatrick, 2009). The informal sector is characterised by the 'grey' and 'black' component. The former consists of legal activities that are hidden or not recorded in taxation or regulation, and the latter consists of income generation from illegal activities. A significant number of registered companies are believed to be operating in the grey economy. Many companies do not declare their real number of employees. Despite the existence of the Labour Inspectorate, whose duty is to observe the implementation of the labour law, many private companies do not declare all their employees in order to avoid taxation.

Social assistance programmes – do not reach all the poor. The World Bank (2010) estimated that 45% of the population is considered to be poor and 17% of the population

considered as extremely poor. Social assistance programmes are inadequate. Difficult macro-economic conditions create a challenge for balancing huge investment needs and social priorities, especially given a restrictive fiscal rule and conservatism. Due to this many poor people are not protected through public support. Even the social assistance programme which exists, due to the tight fiscal space, has low coverage, hence over 60% of the poor are not reached by the social assistance programme.³⁶ Besides, even those who benefit from it feel the low benefit level. As such, the programme has not resulted in improving the welfare of the population. Social assistance (a money transfer of 61 euro per month per household) is given only to those families meeting strict eligible criteria (none of the family members is able to work, due to age, disability, etc.). War veterans and families of civilian war invalids also benefit from the social assistance spending. The pension system in Kosovo includes all persons over 65, regardless of previous earning and contribution history. The basic pension is 45 euro per month. However, those who can prove at least fifteen years of contributions under the former Yugoslav pension system are entitled to an additional 35 euro.

2.5.2 Labour Market Institutions – Fiscal, Taxation and Education Policy

One of the main factors that constrain employment creation in Kosovo is its weak economic growth. Economic growth generates jobs and household incomes. Economic growth and job creation can also contribute to poverty reduction by increasing the demand for labour. The inability of workers to find jobs in the economy could be due to insufficient effective demand for goods and services in the

³⁶ World Bank, Kosovo public expenditure review

economy, which, in turn, implies that there is insufficient demand by firms to hire workers. If unemployment is taken to be caused by inefficient demands for goods and services, the solution is seen to be an increase in the aggregate induced by appropriate fiscal and monetary policies, such as an increase in government expenditures or a decrease in interest rates, brought about by a new monetary policy (Sen and Kirkpatrick, 2009).

However, the demand for jobs in Kosovo might be different from other countries, mainly because of the long term unemployment. First, more than 63% of the unemployed have been looking for a job for more than two years and second about 90% of those who are not working have never worked before,³⁷ indicating that the majority of the unemployed are first time entrants to the labour market.

On a macroeconomic level, fiscal policy and taxation policy also play an important role in a country's economic stability. Fiscal planning is important, especially for a country like Kosovo with a small annual budget of around 1.4 billion euro, and with mega projects on the way like the construction of the national highway. Since 2009 Kosovo has been a member of IMF and the World Bank, and although in 2010 it received a 120 million euro loan from IMF, today Kosovo is under strict supervision from the IMF on budget spending. This came as a result of a 30%-50% increase in wages in the public sector this year by the government, although the IMF had recommended to the government not to do so. Taxation policy also plays an important role in encouraging businesses for growth and expanding their activities. Kosovo has managed to establish a fine taxation system which is managed by the Tax Administration of Kosovo. For a country heav-

ily reliant on imports, customs tax generates the main income for Kosovo's budget. Fiscal policy, taxation policy and especially education policy are all related directly or indirectly to the employment policy. Below, we provide a description of each of them.

Fiscal policy – Kosovo does not have an independent monetary policy. Kosovo's currency is the euro. Fiscal policy has been an essential factor for maintaining Kosovo's economic stability and a main instrument for the economic growth. In general, Kosovo has managed to establish good institutions for autonomous fiscal management. The fiscal record has been strong and tax revenues have been growing over the years. Fiscal planning is done through a medium-term expenditure framework (MTEF). But, implementing fiscal policies has not been easy for the Kosovo institutions. Since 2007 MTEF is the government's main document for fiscal planning. The problem is that none of the MTEFs has been properly respected. Poor planning, under-spending or over-spending has made the Kosovo government often shift away from agreements with the International Monetary Fund (IMF). The 2007 fiscal year was closed with a 7% GDP budget surplus. The budget moved to a balance in 2008 and close to a 7% budget deficit in 2009. Introducing several new un-budgeted initiatives and especially the increase of wages by 30%-50% in the public sector in 2010 made the Kosovo government derail from the fiscal framework and even jeopardised its agreement with the IMF. This made the IMF announce new strict monitoring of fiscal policies for the Kosovo government.

In April 2011 the Government approved the new MTEF 2012-2014. This document mentions some of the major challenges that Kosovo's economy is facing, such as the huge trade deficit characterised by significantly low export income compared to imports, a significant decrease in foreign direct investments

³⁷ World Bank, Unlocking growth potential: strategies, policies, actions, page 59

compared to previous years, the informal economy, a high unemployment level, and the lack of concrete policies to address these challenges.³⁸ According to this document, among the government priorities is investment in infrastructure, improving the energy supply and privatisation of KEK distribution, investments in education etc. According to this document, in 2011 Kosovo will have a GDP growth of 5.3%, in 2012 it will rise to 6.6%, 7.8% in 2013 and 7.4% in 2014. The government expects that investments will increase to 1.8 billion in 2014. Exports are expected to increase too from 995 million euro in 2011 to 1.1 billion euro in 2014.³⁹ Kosovo's budget for 2010 was 1.47 billion euro. Based on the Financial Annual Report of 2010, a report which is drafted by the Ministry of Finances and approved by the government no later than 31 March of the following year, the total income for 2010 was 1.194 billion euro. Again the main income came from customs taxes (699 million euro), the Kosovo Tax Administration (197 million euro), self-generating income (100 million), etc.

Taxation policy – The Kosovo tax system is relatively simple and tax rates and customs tariffs are low, especially the VAT rate, which is the lowest in the region. Most tax revenues are collected at the border, which make up around 60%-70% of the total budget every year. This is normal for an economy that has a trade deficit and relies mostly on imports over domestic products. Kosovo has been a member of CEFTA since 2007, but trade deficit never closed. One reason is the blockade on all products exported from Kosovo to two CEFTA members, Serbia and Bosnia and Herzegovina. Their justification for breaching the CEFTA agreement was Kosovo's decision to change its customs stamps from *UNMIK Customs* to

Kosovo Customs. Due to this blockade exports dropped by 9.8% in 2008. Trade deficit for Kosovo is not unusual. Although Kosovo has seen a significant increase in exports since the end of the war in 1999, the margin between exports and imports is still very high. In 2010 alone imports were more than 2 billion euro, while exports barely reached 300 million euro. CEFTA countries ceased to be the main export destination for Kosovo producers, and since 2007 EU countries have turned to be a more lucrative market for Kosovo-made products. This is due to an agreement signed in 2007 between Kosovo and the EU for providing trade preferences for Kosovo companies. In this way, EU countries especially Italy, Germany and Greece became the main export destinations, the reason why the export income with the EU compared to the region doubled. Exports to EU countries in 2010 were over 130 million euro, while exports to the region were around 70 million euro.

The tax system is administered by the Tax Administration of Kosovo (ATK), whose authority is regulated by the Law.⁴⁰ ATK is an executive authority and operates within the Ministry of Finances. Every individual that has to pay taxes is registered at ATK and has a fiscal number before engaging in an economic activity. The law obliges all businesses to have the new fiscal electronic machines. Businesses who fail to equip themselves with this machine are fined 1,000 euro, because this means they have the intention of hiding their transactions. In 2005 Kosovo introduced a new taxing system. The Corporate Income Tax was introduced, as was the Individual Income Tax. Since January 2009 new tax rates have been introduced. In order to attract foreign investors, corporate income tax was reduced from 20% to 10%, while Value Added Tax increased from 15% to 16%.

³⁸ MTEF 2012-2014

³⁹ <http://www.gapmonitor.org/?id=2&n=377>

⁴⁰ Law No. 03/L-222 on TAX Administration and Procedures

Education policy - The level of employment in a country is also related to the investment in education and education policies applied. The education system in Kosovo consists of nine years of compulsory basic education (primary and lower secondary) age 6-15, which is supplemented by three to four years of non-compulsory secondary education. There are 992 primary and lower secondary schools in Kosovo, which in 2010/2011 accommodated 301,486 pupils (48.3% female).⁴¹ The upper secondary education consists of 111 schools, which are divided into two categories: '*gymnasium*' (general education) and vocational schools. In 2010/2011 there were 106,924 students registered in these schools (45.4% female). Around 56% of students go to vocational schools. There are also 7 schools in Kosovo for children with special needs. In total the number of students in primary and secondary public education in Kosovo is 433,916 (47.6% female).

Public higher education consists of two public universities, the University of Prishtina and the University of Prizren. The University of Prishtina receives more than 15,000 new students every year, and has a total number of more than 40,000 students. The University of Prizren, which started in 2010, has less than 2,000 students. All this shows that approximately 475,000 students were enrolled in the public education system as a whole in 2010/2011. The existence of a number of private universities and colleges in Kosovo should be added to this. In 2010 the Government accredited 18 private providers of higher education (PPHE).

Despite the existence of both public and private providers of education and despite a satisfying number of students enrolled in the education system, the quality of education

arouses a lot of concern. Public universities, for example, have failed in adopting modern teaching and evaluation methods; practical work or internships are not obligatory and the majority of students have never done an internship during studies; proper text books are either missing or not updated. Private colleges and high schools tend to provide a better preparation for the job market in the sense that they provide more attractive programmes as demanded by the job market. However, the general reputation of PPHE is low, making it very hard for their students to convince employers of their qualifications. Perhaps the only exception is the American University in Kosovo, which provides higher teaching standards, and whose graduating students are more likely to find jobs.

Public spending on education makes one of the largest programmes of government expenditure. In 2008 the budget for education accounted for 16% of the total government budget.⁴² The budget on education varied between 127 million euro in 2007 and around 169 million euro in 2010. Despite slight increases over the years, public spending on education is still relatively low compared to countries in the region. Government spending on education in 2008 was 4.3% of GDP, which was lower compared to other countries like Slovenia 5.7%, Serbia 4.8% or Poland 4.7%.⁴³

Lack of data makes it hard to estimate how many among the students manage to find a job after their graduation. There is a general assumption among employers that graduate students in Kosovo lack professional training, since the education system, especially in the largest public university, has been very theoretical in the last decades. Students of University of Pristina have traditionally spent years memorising data and theories but have

⁴¹ Statistics on Kosovo Education 2010/2011 – Ministry of Education, Science and technology

⁴² World Bank, Kosovo public expenditure review

⁴³ Ibid.

been weak in implementing their knowledge in practice. Lack of training and skills is still a problem undermining graduates' opportunities in finding jobs. Hence, job seekers with a degree obtained abroad or in private universities have a little advantage on this.

2.5.3 Active and Passive Labour Market Policies

Employment in Kosovo today is either in the form of hired labour or in the form of self-employment. Assisting/working in a family business is also a characteristic of many 'employed' people in Kosovo. Employment policy consists of various forms, mechanisms and instruments that affect directly or indirectly the labour force supply and demand. Employment policy plays an essential role in Kosovo's shortage of jobs. Tomew (2011) mentions that employment policy is divided into two types of policies: active and passive. Active policies apply various forms and mechanisms for a direct impact on the labour supply and demand, including both the primary and secondary labour market. The objective of active policies is first and foremost to activate employment by preserving existing jobs, and at the same time encouraging job creation and self-employment in the form of individual entrepreneurship. Passive policies aim at securing a social living standard for the unemployed. These policies tend to prevent unemployment or at least make the consequences of remaining jobless easier. For passive policies to be effective, people must go through various registration regimes and fulfill the conditions for gaining access to the systems established to provide unemployment benefits and welfare support. Keeping the evidence of jobseekers also increases their opportunities for earlier employment.

The current employment situation in Kosovo – employment policy can improve the

employment opportunities, or at least make the transition for job seekers easier. Active policies from the government can help the society by narrowing the gap between supply and demand and help the reintegration of specific groups, especially those less represented on the job market. Active policies, in other words, aim at preserving the existing jobs and at the same time encouraging job-creation. Job creation is possible in the public sector through government programmes, in the private sector through foreign and domestic companies and through self-employment-entrepreneurship. In the following lines we will provide a general picture of employment in both sectors, public and private.

The public sector – is one of the largest employment agencies in Kosovo. In 2010 a total of 70,326⁴⁴ (38% females) people were employed in the public sector. Only 28,915 of them were employed in central institutions and the remaining ones were dispersed in local government. Only in the education sector there are more than 30,000 employees. The civil service in Kosovo also employs a significant number of people, as this is where at present around 24,000 civil servants are employed. The average salary in the public sector is 371 euro.

The private sector – in Kosovo is dominated by small firms and is mostly oriented towards retail and low income services. According to the Business Registration Agency, currently there are 106,555 firms registered in Kosovo, although not all of them are active. The tax Administration of Kosovo reports that less than 70,000 fiscal numbers have been issued to operating businesses. Due to the high informal economy it is hard to know exactly how many people work in the private sector. One way to have an estimated guess is to look at the number of contributors to the Kosovo pension saving fund known as Trust.

⁴⁴ Ministry of Public Administration, March 2010

Trust is an institution that manages the obligatory pension savings for all employees in Kosovo, both from the public and the private sector. In 2010 the total number of pension contributors in Trust was 234,729⁴⁵. Due to high informality we cannot say that this number represents the real number of employees in Kosovo. It is worth mentioning, however, that there is a positive movement in the sense that the number of contributors is increasing every year, which is a result of their employment or because they have decided to declare themselves for the first time in the formal economy. In 2010 there were 23,782 new contributors who did not exist in a previous Trust register. If all employees in the public sector (70,326) were at the same time contributors to Trust, this means that the remaining 164,362 contributors were employed in the private sector.

Foreign banks that operate in Kosovo have been a good source of employment especially for fresh graduates. In 2010 all banks together employed 3,796 employees.⁴⁶ Bechtel-Enka employed around 2,600 local workers in building the national highway. A significant number of people have found jobs in big public enterprises too. Kosovo Post and Telecommunication (PTK) has more than 2,500 employees and Kosovo Energy Corporation (KEK) employees around 8,000 employees. Both enterprises are on the list of the government's priorities for privatisation, which most probably will bring a loss of jobs. Most of the registered firms in Kosovo are micro enterprises and most of them employ less than five people. Half of them are engaged in trade, hotels and restaurants and only 2% of them are engaged in agriculture. Agriculture is a very important field that could generate jobs. In the last decade private firms have faced many problems

with the shortage in energy supply, which has recently improved considerably.

Entrepreneurship – is a new concept that has been promoted intensively in recent years, especially from foreign donor agencies like USAID. As a form of self-employment, entrepreneurship has been greatly encouraged by USAID programmes, which have helped many young people with training on how to start a business or expand an existing business. Creating a business in Kosovo is not that easy. Bureaucratic and financial problems are two discouraging factors. The pace of starting a business in Kosovo is very slow, leaving the country too far behind compared to OECD countries. Kosovo ranks 164th in terms of starting a business. On average it takes 52 days to launch a business in Kosovo, while in OECD countries it takes approximately 13 days. In other words, it takes around seven weeks to start a business in Kosovo, plus the cost and minimum capital, which are substantial. In comparison, to start a business in Macedonia it takes less than four days and no minimum capital is required.⁴⁷ This not only discourages the growth of firms, but it also makes many firms operate in the informal sector. In addition, small and new firms, especially those in rural areas have difficulties in getting loans. Banks do provide business loans, but only with a high interest rate, which is 15%-24%. This is unbearable for many businesses and very discouraging. Better interest rates could generate more new businesses and allow existing ones to expand their activities and the number of employees. Assisting in family businesses is also very common in Kosovo. Although this is not a proper form of employment, it helps many unemployed people gain some job skills. This is usually manifested during summer when people find seasonal jobs especially in construction and agribusiness.

⁴⁵ Trust 2010 Annual Report

⁴⁶ GAP Institute, Regulating employment in Kosovo

⁴⁷ World Bank, Kosovo-Unlocking growth potential: Strategies, Policies, Actions

Registration of job seekers and training – in 2001 the Ministry of Labour established a service for keeping track of job seekers. The Public Employment Service has a network of employment institutions and training centres, whose function is to keep records of job seekers, provide information about the job market and provide training and career consultancy. There are 206 employees who work in seven regional employment centres, a total of 23 offices throughout Kosovo municipalities and 8 centres of professional preparation.⁴⁸ By the end of July 2011 there were 336,126 job seekers registered in all employment offices in Kosovo. Almost half of them are women. The number of job seekers has not changed much since January 2008 when the number of registered job seekers was 335,732. A general perception is that registering in these offices does not guarantee you a job. The public employment service needs some organisational reforms. This service does not have a credible system of information on the labour market, which very often makes its career advice irrelevant.

It is worth mentioning that since 2009 every year the Ministry of Labour in association with the Kosovo Business Alliance has organised the employment fair in Kosovo's major municipalities. In this event firms both local and international are invited to present their business and hire a number of people. At the same time, job seekers are invited to apply. This year from 6,836 applications filed, only 969 people were hired. Most of them were hired in the agribusiness sector, construction and IT. In 2009 through the Employment Fair 530 people were hired, whereas last year the number increased to 780. One particular thing worth mentioning is that in 2011 companies promised an even greater number of jobs, but they could not find qualified candidates! This is indeed worrisome, in that, de-

spite the large number of applicants, most of them lack proper training or job skills.

2.5.4 Horizontal Principles – Social Dialogue in Kosovo

Protecting employees' right is as important as creating job places. In November 2010 Kosovo Assembly approved the Labour Law. It was one of the most awaited laws, which would regulate the rights and obligations between employers and employees in the private and the public sector. The Labour Law eventually regulated some of the most fundamental rights (especially those of employees in the private sector), which had not been respected since the end of the war. Many people used to work without employment contracts, with unpaid maternity leave and unpaid sick leave, and have long working hours. The Labour Law, which consists of 100 articles, took into consideration a range of requirements by the trade unions. The law included articles stating that the employment contract must be offered only in written format; the probation period could not last more than 6 months; it formalised the 40-hour working week; employees must be given the right to have a break of at least 30 minutes; it guarantees employees 4 weeks of vacation per year; and gives female employees a maternity leave of 12 months, 9 months of which is paid (previously it was only 3 months paid leave and 3 months unpaid leave).

A great deal of responsibility for implementing the Labour Law fell upon the Labour Inspectorate. This executive body, which operates under the Ministry of Labour, is responsible for overseeing the implementation of labour law, including assessment of safety measures at and environment of the workplace, and protection of the health of employees, and so on. Inspectors must also explain to both employers and employees the provi-

⁴⁸ Kosovo Government – Employment strategy 2010-2012

sions of the law and report to the Ministry any misunderstanding with regard to certain acts of the law. Despite its responsibility, the Labour Inspectorate has not been successful in observing the implementation of this law. This agency operates with a small budget; it has an insufficient number of inspectors and has logistical problems⁴⁹. The Inspectorate has only 51 inspectors responsible for visiting all the businesses in all Kosovo municipalities. Among 37 Kosovo municipalities, there are some without a single inspector, including Suhareka and Istog, two quite populated municipalities. Other municipalities that were created due to the decentralisation process also lack labour inspectors. Some large municipalities like Ferizaj and Lipjan each have one inspector, and Prizren, the second largest municipality in the country, has only two inspectors. This small number of inspectors makes it almost impossible to visit all 106,555 registered companies during the year.

Besides the small number of staff, the Labour Inspectorate also has an insufficient numbers of cars, does not have enough offices in municipalities, and lacks good communication technology. Working in poor logistical conditions is also against the ILO convention, which stipulates that the responsible authority should create optimal working conditions for labour inspectors, including offices equipped with computers, transportation, communication, etc. Today, most of these ILO standards are either partially met or not met at all by the Labour Inspectorate. All this is due to the small budget the Labour Inspectorate has, which in 2011 was 565,074 euro.

Private sector employees do not have proper organisation and initiatives to create trade unions. However, there are three employer's associations in Kosovo where private companies register for membership, Kosovo

Chamber of Commerce, American Chamber of Commerce and Kosovo Business Alliance. Banks, too, have their own association – Kosovo Bank Association. Public sector employees are more organised and have their own trade unions, which are all under the umbrella of the Union of Independent Trade Unions of Kosovo (BSPK). The history of social dialogue started in 2004 when the Kosovo government, Kosovo Chamber of Commerce and the Union of Independent Trade Unions, created the Tripartite Consultative Council. This council reached an agreement called the General Collective Contract, which entered into force on 1st January 2005 and was valid for three years. This contract that aimed to specify certain rights, duties and responsibilities between employers and employees, was never implemented. Some trade unions established their own collective contracts, such as the example with the Health Collective Contract between the Health Syndicate Federation and the Health Ministry, or contracts from public enterprises like the PTK Collective Contract reached between PTK trade union and PTK management.⁵⁰ All these collective contracts contained rulings on the working hours, the length of maternity leave, annual leave, trial period, etc. All these are now regulated by the Labour Law.

In April 2008 the Kosovo government decided that the Tripartite Consultative Council now be named Economic – Social Council, based on international conventions. In August 2011 the Law on Economic – Social Council was passed. The law regulates the functioning and the authority of the Council. The Council consists of representatives from the government, the employers' organisation and the employees' organisation. The council has 15 members, five members for each group. One of the major functions of the Council is to de-

⁴⁹ GAP Institute, Labour Law: its implementation in the first six months

⁵⁰ GAP Institute, Regulating Employment in Kosovo

velop social dialogue in Kosovo and to propose the minimal wage. According to the Labour Law, the government sets the minimum wage every year, after the Economic – Social Council proposes it. Since 2005 the official minimum wage in Kosovo has been 120 euro. In April 2011 the Economic – Social Council decided to propose to the government that the minimum wage for 2011 be 170 euro at a national level, including the public and private sector. The employees' organisation proposed that the minimum wage be 250 euro. However, the government came up with a different idea, most probably influenced by the propositions from the International Monetary Fund.⁵¹ In August 2011 the government decided that there will be two types of minimum wages, for employees aged 18-35 the minimum wage will be 130 euro and for those above 35 the minimum wage will be 170 euro.

2.5.5 Migration and Remittances as Country Specifics

For decades migration has been an option for political and economic survival for many Kosovars. Since 1999 emigration has been done mainly for economic reasons, for sustaining families or in search of a better life. The World Bank estimates that Kosovo is among the countries with greatest migration in Europe (and in the world).⁵² It is estimated that around 400,000 Kosovars live abroad. That is a quarter of Kosovo's 1.8 million population. One in every four households in Kosovo has at least one family member living outside Kosovo. Germany and Switzerland have been the main destinations. The expectation for future migration remains high. About 3.5% of the working population, aged 15 years and older report that they are likely to migrate during the next

12 months (World Bank, 2010). In 2007 alone 11,000 migrants left Kosovo. Despite the staggering figures, Kosovo yet has no policy to deal with the migration issue, which in other words could be considered as a massive brain drain.

In 2011 the Kosovo government established the Ministry of Diaspora, which aims to address the problems and issues of the Kosovo community living abroad. The number of Kosovar asylum seekers on the other hand has reached staggering figures. Kosovars are currently the fifth largest group of asylum seekers in the EU, with more than 14,000 requests in 2009 (Afghanistan, Russia, Somalia and Iraq had more).⁵³ This situation is neither in the interest of the EU government nor in that of Kosovo, especially now that Kosovo is asking from EU governments to abolish visa requirements from Kosovo. Kosovo is the only country in South East Europe that has been denied a visa liberalisation. The Kosovo government has signed several readmission agreements with EU member states and even adopted the Law on Readmission in 2010, which obliges Kosovo to take back its citizens found to be residing illegally in an EU country. From Germany alone 21,852 persons were forcefully repatriated between 1999 and mid-2009 (in addition to 92,240 voluntary returnees).⁵⁴

Migration, however, continues to be an important aspect of Kosovo's economic reality. Kosovo migrants have played a significant role in the country's economic growth and poverty reduction. Kosovo has received large sums of remittances, which make one of the largest external sources of financing for Kosovo. In 2009 remittances made 12.9% of the GDP, and in 2006-2007 this was even higher: 15%.⁵⁵ The World Bank also reports that Kosovo is the 3rd highest remittance recipi-

⁵¹ <http://www.gapmonitor.org/?id=2&n=422>

⁵² World Bank, Kosovo-Unlocking growth potential: Strategies, Policies, Actions

⁵³ ESI, Isolation confirmed

⁵⁴ Ibid.

⁵⁵ World Bank, Kosovo-Unlocking growth potential: Strategies, Policies, Actions

ent in the Western Balkans (after Bosnia and Herzegovina and Serbia) and according to a 2004 survey, 11th in the World with a 13.6% share of GDP. A great portion of remittances comes from Kosovo workers in Afghanistan and Iraq. It is believed that around 1,000 Kosovars are working in Afghanistan. The remittances from Afghanistan are believed to reach around 60 million euro annually. Families with emigrants abroad have a higher level of consumption and are estimated to be less poor. Without migration (remittances) poverty would be higher and more widespread, especially in rural areas.

2.5.6 Conclusions and Recommendations

None of the governments in Kosovo's new history has been able to deal with the high level of unemployment. So far no government employment strategy has proven to be successful. Unemployment, especially among the youth, remains one of the biggest challenges for policy makers. Comparative statistics rank Kosovo at the bottom in the employment list in Europe. With its 25% of employment, Kosovo is behind its neighbouring countries and very far from the European Employment Strategy, an inseparable part of the EUROPE 2020 Strategy, to achieve a 75% employment rate among people aged between 20 and 64. With its current pace of economic growth, this is unlikely to be achieved.

Unemployment in Kosovo is also characterised by long term unemployment. Around 30,000 people join the labour market every year and the number of those who reach retirement age is much lower. This is mainly due to the young population that Kosovo has. The transition from school to work is very long, and the time in between is a wasted time since most of unemployed stay idle. In general finding a job is challenging, since there are only a few programmes that would en-

able massive employment, like the construction of the national highway.

The poverty level remains high and living standards are not improving as expected. Socio-economic poor conditions have made many people search for a better live via migration. One quarter of Kosovo's population lives outside Kosovo's borders and many more are willing to migrate. Kosovo's emigrants, however, have turned out to be a great contributor to the overall country's income. Remittances from migrants make up to 15% of the GDP, although this is a trend that has been slowly declining.

Investment in education, although it is among the most expensive government programmes, is lower compared to public investments in education in other countries. Both public and private education exists. In public education alone there are nearly half a million students. University programmes nevertheless have not been very successful in equipping students with the necessary skills for the job market. This makes the task of finding jobs even more difficult for fresh graduates.

Staggering figures of unemployment in Kosovo show the need for better active employment policy from the government. From what has been discussed above, we can add the following recommendations.

- The government should review the Employment Strategy 2010-2012 because not much progress has been reported. The data from the employment registration offices show that the number the number of job seekers has more or less stayed the same since 2008.
- The new Employment Strategy should include practical policies on how to generate jobs. The government should have a strategy with specific numbers on how many job places it plans to create in the coming years and in what sectors the jobs will be created.

- Most Kosovo municipalities have employment offices and training offices. Their role so far has been mostly to keep the record of job seekers, giving the job seekers slight hope for potential employment. These offices should be reformed. New technology should be used in updating the job seekers' details and qualifications, modern training should be offered and job opportunities should be advertised online.
- Entrepreneurship should not only be encouraged as a positive concept. Government policies should make the process for start up businesses easier. Bureaucratic registration procedures should be eliminated. One way is by establishing more one stop shops. Rules and regulations for the operation of banks should be reconsidered in order to make banks reduce the loan interest rates for business start ups.
- Social assistance programmes should also be reconsidered. Current programmes seem inadequate. The government should sponsor as soon as possible a new law on pensions. The pension system now is both inefficient and unfair.
- The informal economy is damaging the country's economy and social welfare. Unregistered firms should be encouraged to register and contribute to the Tax Administration. Companies should also be encouraged to declare their employees and observe the law requirements.
- Many private companies are not properly implementing the labour law. The Labour Inspectorate has a great responsibility in overseeing the implementation of this law. The government should increase the Inspectorate's budget, and increase the number of inspectors.

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2.6 Labour Market and Employment Policies in Macedonia

Vesna Stojanova, Todor Milchevski

Abstract

Analysis of the labour market is based on evidence of the structure of employment/unemployment rates, age, education, type of business and activity rates for the population capable of working. Employment policies and labour market institutions are analysed regarding active and passive policies, and implementation of horizontal principles.

Introduction

In the last two decades, unemployment has been one of the key economic and social issues Macedonia has been facing. Basically, Macedonia had a rough patch during the transition period, which resulted in the closure of a lot of businesses, companies, factories, etc. This led to many workers losing their jobs. Furthermore, the labour market did not have the capacity to absorb this workforce, mainly because of the lack of job creation and qualifications needed on the job market.

In most of the period, Macedonia had a weak economic performance with low GDP growth rates, low levels of investments, etc. Today Macedonia has almost the same level of GDP as it was 20 years ago. Several events have contributed to this unfortunate situation, such as the trade embargo imposed by the neighbouring country Greece, weak structural reforms, the refugee crisis in Macedonia caused by the Kosovo war events and the military conflict in Macedonia in 2001. Due to this, many negative effects emerged, such as unemployment, poverty, migration, regional disparities, grey economy and so on. Approximately one third of the population in Macedonia is considered to be poor. Furthermore, this situation has a very negative impact on the budget considering the costs for social transfers, less income from taxes etc.

However, considering the last 5 years, a number of policies and measures have been introduced in order to improve the economic situation in Macedonia. Even though the results are not highly satisfactory, the efforts are obvious.

In addition, one must emphasise that Macedonia is a country with high macroeconomic stability and one which complies with the Maastricht criteria in full. The past 15 years are characterised with low inflation rates, a budget deficit below 3% (except in 2001, due to the ethnic conflict in Macedonia), public debt less than 60% and a stable currency. This is an excellent precondition for economic growth and investment promotion, which, of course, leads to higher employment.

2.6.1 Latest Macroeconomic Developments

According to the latest GDP data, in the first quarter of 2011 the **economic activity** registered a positive growth rate of 5.1% on an annual basis. Such growth has not been evidenced since 2008 (5.8%), that is before the world's financial crisis. The main carriers of the increased economic activities in the country were "Construction" (21.2%) and "Industry" (13.7%). After five months in the positive zone, **industrial production** in June registered a negative annual growth of -1.8%. The main "contributors" to the fall

were: “the Petroleum Industry” (-84.8%), “Electricity” (-33.5%) and “Fabricated Metal Products” (-35.9%). On the other hand, positive growth was registered in: “Electrical Equipment” (193.5%), “Tobacco Products” (47.9%) and “Wearing Apparel” (19.9%). An annual decrease is evident in 16 out of 26 industries, representing 54.23% of the total volume of industrial production. According to the estimation of the managers of the business entities in the manufacturing industry, the business environment in the first quarter of 2011 is assessed as more favourable compared with the same period in 2010.

Exports in May reached EUR 260.9 million, which was 43.4% higher on an annual basis (2011/2010). The most significant products were: supported catalysts with precious metal or precious metal compounds as the active substance, iron and steel products, clothes, as well as ferrous-nickel and petroleum oil preparations. Total **imports** in May reached EUR 387.6 million, which was 32.2% higher compared to the previous year. Herein, the most significant products were: platinum and platinum alloys, colloidal precious metals, amalgams of precious metals, crude petroleum oils, as well as motor vehicles for transport of persons and electricity. Thus, the trade volume amounted to EUR 648.5 million, which was 36.5% higher relative to the first quarter of 2010. The export/import coverage ratio increased to 60.7%. However, the **total trade deficit** for the first five months reached EUR 782 million, or 15% higher than the respective period in 2010.

The **current account balance** in April registered a deficit of EUR 41.3 million, which is slightly higher than March and almost the same as April 2010. The higher trade deficit was neutralised by the higher private transfers.

In June no changes in the **monetary instruments** were registered. However, the real interest rate went up to -0.1%. The money market

interest rate decreased by 2bp, reaching a level of 2.1%. The **fiscal deficit** in June widened to EUR 125.4 million or 1.8% of GDP compared to 1.5% in the previous month. Compared on an annual level, the budget deficit in the same period previous year was 1.5% of GDP.

The index of the number of **employees in industry** in June, in comparison with the same month of the previous year, was 103.3. The number of employees in the section “Mining and Quarrying” increased by 2.8%, in “Manufacturing industry” it increased by 1.8% and the section “Electricity, gas, steam and air conditioning supply” it was 4.2% higher. The index of the number of employees in industry for the period Jan-June 2011, in comparison with Jan-June 2010, was 102.2.

This policy paper will present the current labour market situation in Macedonia, explore the policies being implemented and provide relevant recommendations.

2.6.2 Labour Market Situation in Macedonia

Macedonia has one of the highest unemployment rates in Europe. Many of the reasons mentioned before contribute to this unfortunate situation. In 2006, the unemployment rate was 36%. Table 1 shows a positive trend with respect to the decrease in the unemployment rate and at the end of 2010 amounts 30.9%. Based on the data, there is an obvious improvement, but the unemployment rate is still too high and far from satisfactory. However, it is important to notice that this number is not real, considering the high level of grey economy in the country. Although we cannot be sure, some calculations state that the real unemployment rate is between 20% and 25%, which means that approximately one quarter of the unemployed are actually working and receive a certain income. The grey economy is a great problem of the Macedonian economy. It reduces public revenues and negatively affects competitiveness.

On the other hand, one of the reasons why this phenomenon has been tolerated is the social component in it. This problem needs to be addressed appropriately. Apparently, the right solution has not been found yet.

Regarding the employment rate, there is an increase, however there is no significant increase in the change of the number of employed persons compared to the previous year.

Table 1. Labour force and employment/unemployment rates

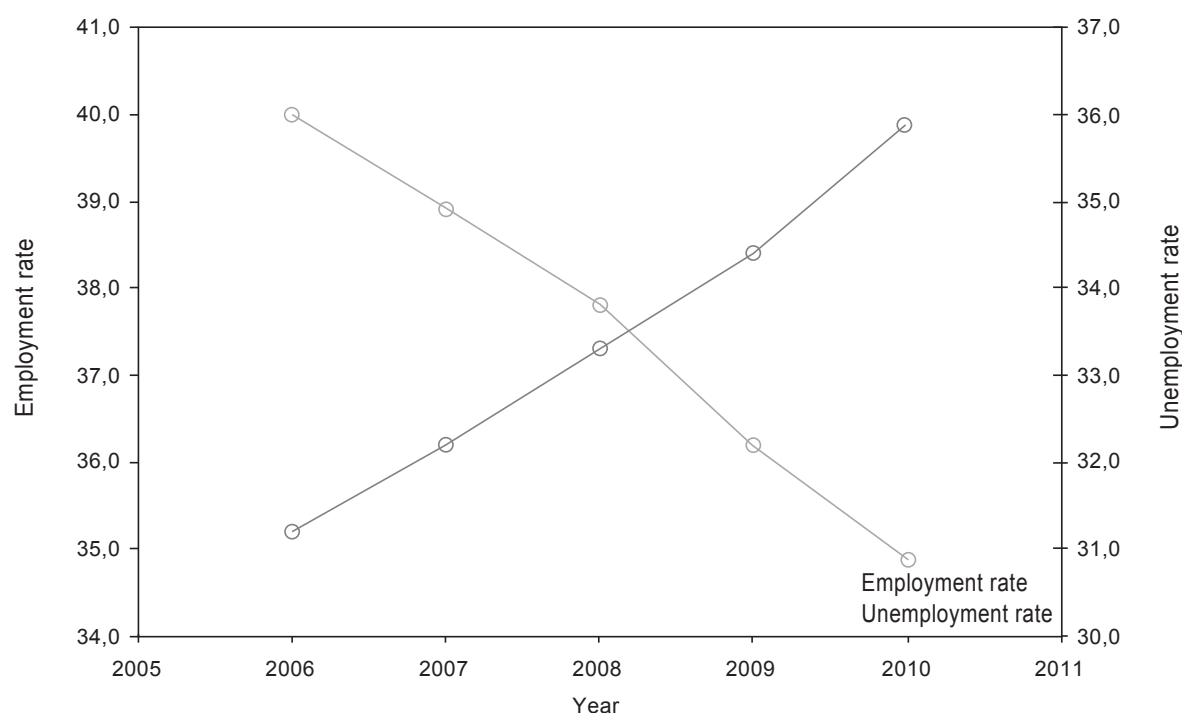
Year	Labour force	Employed	Unemployed	Employment rate (%)	Unemployment rate (%)	Change (employed persons)*	Change (unemployed persons)**
2006	891,679	570,404	321,274	35.2	36.0	4.6%	-0.8%
2007	907,138	590,234	316,905	36.2	34.9	3.5%	-1.4%
2008	919,424	609,015	310,409	37.3	33.8	3.2%	-2.0 %
2009	928,775	629,901	298,873	38.4	32.2	3.4%	-3.7 %
2010/IV	954,928	659,557	295,371	39.9	30.9	N/A	N/A

Change in number of employed persons compared to previous year

** Change in number of unemployed persons compared to previous year

Source: State Statistical Office, Republic of Macedonia

Labour force and employment/unemployment rates



The data for 2010 refers to the fourth quarter

When looking at 2006, we notice that even though Macedonia started its transition period 15 years ago, still huge numbers of the employed are part of the public, state or collective sector. However, there is a positive trend showing that in five years the number of people employed in the private sector has increased by

around 120,000 workers, which is an increase of roughly 30%. During the analysis of the fourth quarter 2010, we found that two thirds of the employed being part of the private sector, are workers related to agriculture or manufacturing. This is an excellent indication of the structure of the Macedonian economy.

Table 2. Employed by ownership of the business subjects

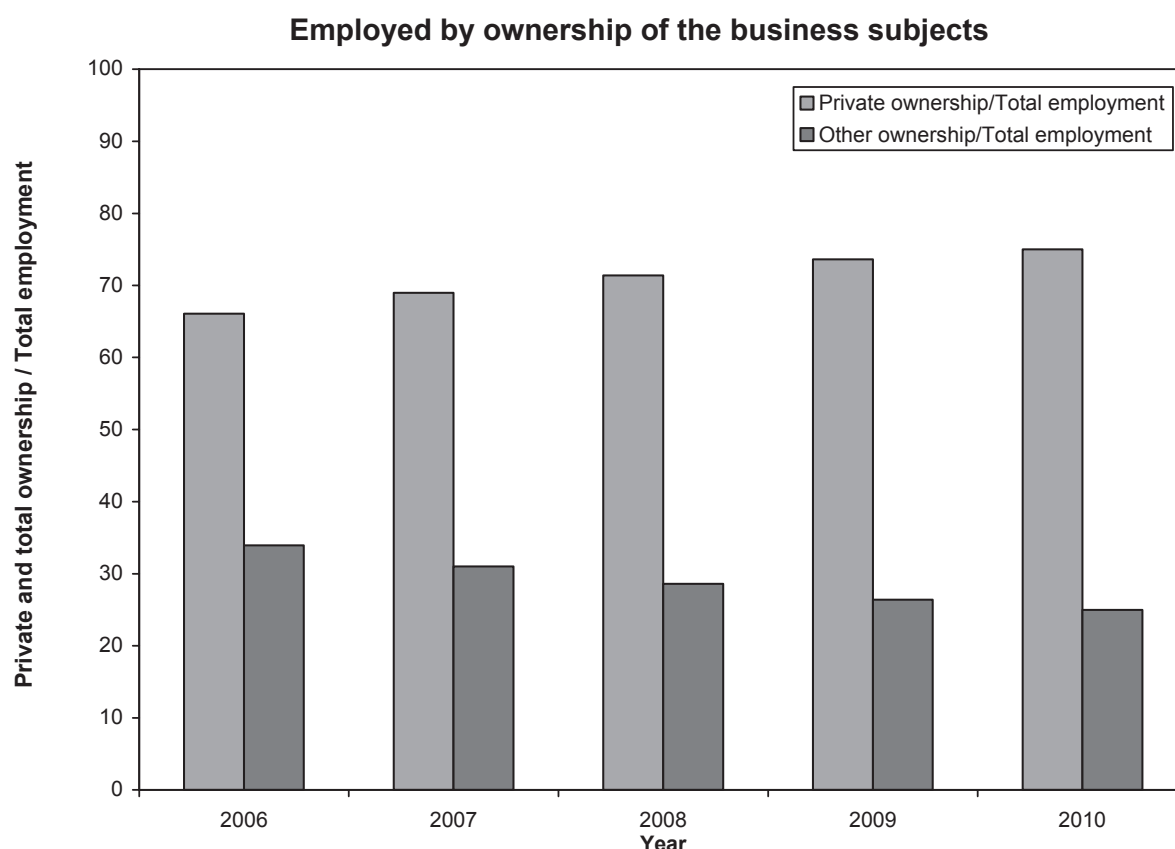
Year	Employed	Private ownership	Other ownership*	Private ownership/ Total employed	Other ownership/ Total employed
2006	570,404	376,866	193,538	66.07 %	33.93 %
2007	590,234	407,154	183,080	68.98 %	31.02 %
2008	609,015	434,819	174,197	71.40 %	28.60 %
2009	629,901	463,683	166,218	73.61 %	26.39 %
2010/IV	659,557	494,793	164,764	75.02 %	24.98 %

Other ownership (social, mixed, collective, state)

Source: State Statistical Office, Republic of Macedonia

It is interesting to see the graph below that reflects the data in table 2, and to notice the upward movement of the private sector on the account of

the state or collective sector. Hopefully, this trend will continue at a faster pace and the private sector will grow, while the public sector shrinks.



The data for 2010 refers to the fourth quarter

If we consider those employed by gender, we can see that in the last five years there have not been significant changes in the labour market structure. Around 60% of those employed are men, while the other 40% are women. One of the reasons for this situation

is what we have described above in table 2, and that is the structure of the Macedonian economy by ownership, where two thirds of those employed in the private sector actually do some kind of work related to either agriculture or manufacturing.

With respect to gender policies, one of the problems that the authorities should work on is the social exclusion of women in rural areas and ethnic communities. Certain measures need to be undertaken to improve this situation. Furthermore, in some cases, in

the job vacancy announcements, one can see that the employer has outlined the gender of the candidate that the company is looking for and this is usually for a job position where the gender of the candidate is not important. This issue needs to be addressed appropriately.

Table 3. Employed population aged 15 years and over by gender

Year	Employed	Men	Women	Men/Total employed	Women/Total employed
2006	570,404	351,974	218,431	61.7 %	38.3 %
2007	590,234	358,835	231,399	60.8 %	39.2 %
2008	609,015	373,483	235,532	61.3 %	38.7 %
2009	629,901	389,332	240,569	61.8 %	38.2 %
2010/IV	659,557	401,884	257,673	60.9 %	39.1 %

Source: State Statistical Office, Republic of Macedonia

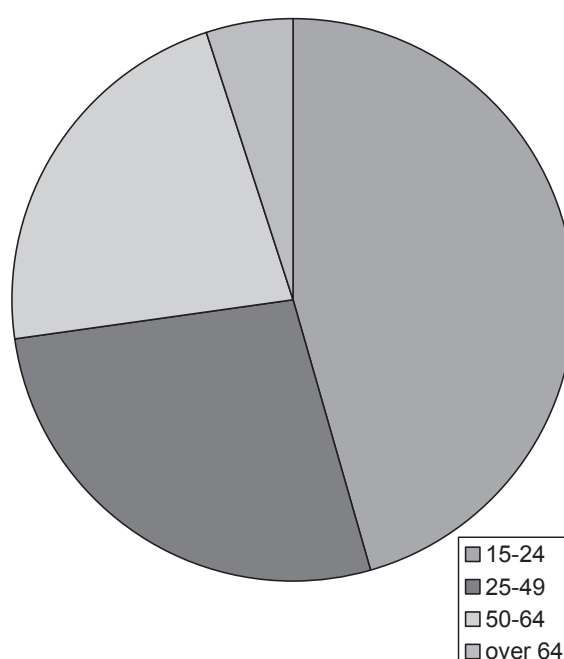
When looking at the unemployment rates by age, we notice that the highest unemployment rates reflect the young population. The explanation for this situation can be found in the lack of matching between the labour market and the education system. In addition, many of the young population are considered to be part of the grey economy. This has a very negative impact, considering the potential of the young people able to contribute to the economic development of the country. In recent years, competition in the education sector has been significantly increased and in that sense the number of students has increased. Perhaps this is one of the reasons why the unemployment rate reflecting people between 15-24 years has been decreased in the last few years. On the other hand, the higher number of enrolled students may be justified by the difficulties the young people are facing while searching for jobs. The pie chart below refers to 2010/IV and clearly presents the data provided in table 4. We can see how big a portion the young people are in the pool of unemployed.

Table 4. Unemployed rates of the population by age groups

Year/Age	15-24	25-49	50-64	over 64
2006	59.8	34.0	28.4	3.2
2007	57.7	32.9	28.5	3.2
2008	56.4	31.6	28.0	8.8
2009	55.1	30.3	25.9	12.3
2010/IV	50.5	30.3	24.7	5.5

Source: State Statistical Office, Republic of Macedonia

Unemployed rates of the population by age groups



The graph refers to 2010/IV

Most of those unemployed in Macedonia are persons with secondary education and below. This is a result of the economic restructuring and the increasing demand for qualified workers, as opposed to the need for unqualified workers. Many of the long term unemployed are people with skills not longer required on the job market. This situation can be improved by setting up proper and adequate education and prequalification programmes. In 2006, only 6.82% of those unemployed had a university level education. Looking five years back, we can see that there were almost twice as many unemployed with a university level education in 2010, as there were in 2006. One of the main reasons for this is the increase in

students who have graduated. According to the Macedonian State Statistical Office, the number of students who graduated from higher schools and faculties in 2008 compared with 2007 was increased by 29.6%.

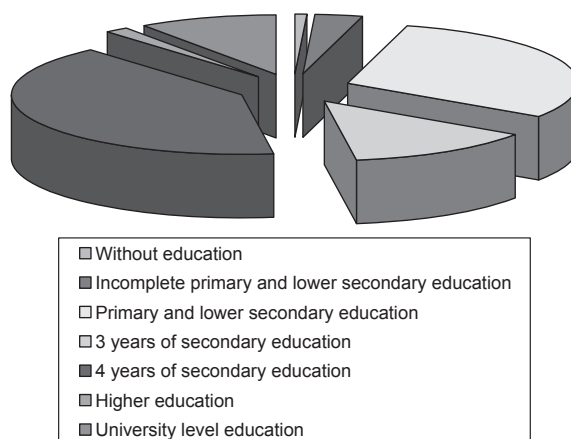
With respect to skills matching, most of the unemployed are uninformed about the skills and professions required on the job market. In addition, the general picture is that many of the people are not flexible regarding prequalification programmes and training, especially when it comes to people at the age of 40 and above. However, this does not change the fact that prequalification programmes are needed in order to improve the matching of skills and respond to what the contemporary labour market requires.

Table 5. Percentage of unemployed persons in Macedonia by education

	Structure of total unemployed persons				
	2006	2007	2008	2009	2010/IV
Without education	1.69	1.70	1.47	0.78	0.22
Incomplete primary and lower secondary education	4.99	4.66	4.57	3.51	2.65
Primary and lower secondary education	30.21	29.50	31.46	30.18	26.07
3 years of secondary education	16.00	15.28	13.37	13.44	14.43
4 years of secondary education	38.13	39.34	39.37	40.60	42.20
Higher education	2.16	2.09	2.01	1.66	1.76
University level education	6.82	7.43	7.76	9.83	12.41

Source: State Statistical Office, Republic of Macedonia

Percentage of unemployed persons in Macedonia by education



The graph refers to 2009

With respect to the demographic set-up of Macedonia, there are 8 regions subdivided by NUTS 3 level. The image is quite polarised. Most of the economic activity is carried out in Skopje, the capital city. Table 6 confirms this image by the numbers of working age population in the Skopje region. Furthermore, there are many people that are part of the workforce in Skopje, although officially their home address is in one of the other regions. In 2007, almost 50% of the gross domestic product belonged to the Skopje region, while in the same year the northeast region contributed to the national GDP with little over 4%. This explains

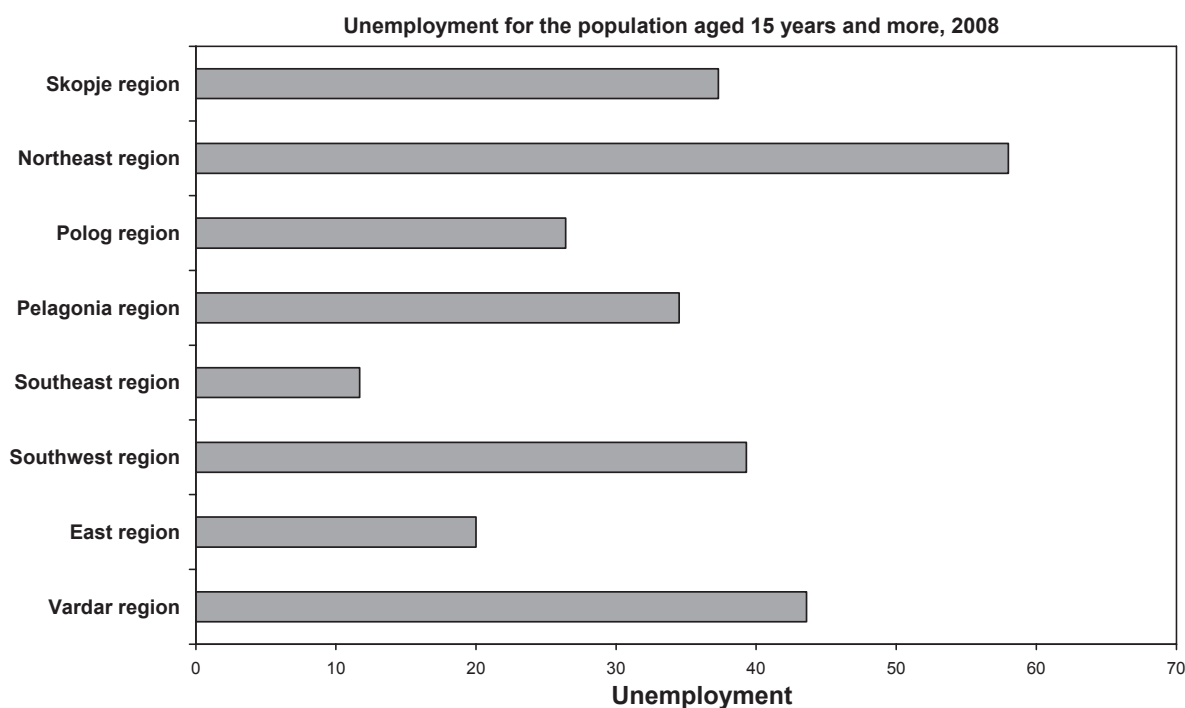
the data below showing that the unemployment rate in the northeast region is an enormous 58%. The lowest unemployment rate is reported in the southeast region, mainly because of the increased level of investments and

people involved in agriculture. On the other hand, the east region is also characterised by low unemployment, however the reasons for this can be attributed to the fact that this region has the highest level of emigration.

Table 6. Activity rates for the population aged 15 years and more, 2008

	Vardar Region	East Region	Southwest Region	Southeast Region	Pelagonia Region	Polog Region	Northeast Region	Skopje Region
Working age population (persons)	122,138	152,504	176,191	141,859	195,363	234,365	137,773	473,148
Activity rate	57.9	59.2	55.5	70.5	63.6	43.9	59.5	53.1
Employment rate	32.7	47.4	33.7	62.3	41.6	32.3	25.0	33.3
Unemployment rate	43.6	20.0	39.3	11.7	34.5	26.4	58.0	37.3

Source: State Statistical Office, Republic of Macedonia



2.6.3 Employment Policies and Labour Market Institutions

Fiscal and taxation policy

Since 2006, the Government of Republic of Macedonia has made certain changes with respect to the fiscal and taxation policy. Until 2007, Macedonia was a country with a pro-

gressive taxation system. The profit tax rate was 15%, while the personal income tax rate was 15%, 18% and 24%. Since then, tax reforms have been implemented as part of the measures for improving the business climate in the country and attracting investments. A flat rate tax system was introduced and the profit tax rate and the personal income tax rate were decreased to 12%. In 2008, these

tax rates were further reduced to 10%. Additionally, 0% tax on retained earnings was introduced. This has proven a successful measure, considering that there was not a loss in public revenues. There are also plenty of highly attractive incentives offered to the companies interested in investing in the Technological Industrial Development Zones (TIRZ). In the past few months, the interest in investing in these zones has been increased.

Unlike many other countries having difficulties with the public debt and the budget deficit, Macedonia has disciplined fiscal policy with budget deficit below 3% and public debt (March 2010) with 32.7 of the GDP. Furthermore, in order to stimulate the private sector and increase employment, the government has decided to decrease the social, health and pension contributions from 32% to 22% (in several phases by 2011).

The capital expenses for 2011 are projected at 5.1% of GDP, which represents an increase of around 30% compared with last year's amount. All of these measures were introduced with the objective of increasing economic

growth, improving the living standard and decreasing the high level of unemployment.

If we take a look at table 7, we can see that, starting from 2005, Macedonia had pretty good results related to the GDP growth. Until 2008, the growth rates were around 5%, reaching their peak in 2007 with a 6.1% GDP growth rate. Although this was not as the expected 6% to 8%, still the outcome is satisfactory. This positive trend was disrupted because of the world economic crisis and in that sense, in 2009, the GDP growth rate was -0.9%. Nevertheless, looking at some of the other economies in Southeast Europe (for example Croatia -5.8⁵⁶ GDP growth rate, Romania -7.1 GDP growth rate, Bulgaria -5.0 GDP growth rate), this result is not that bad.

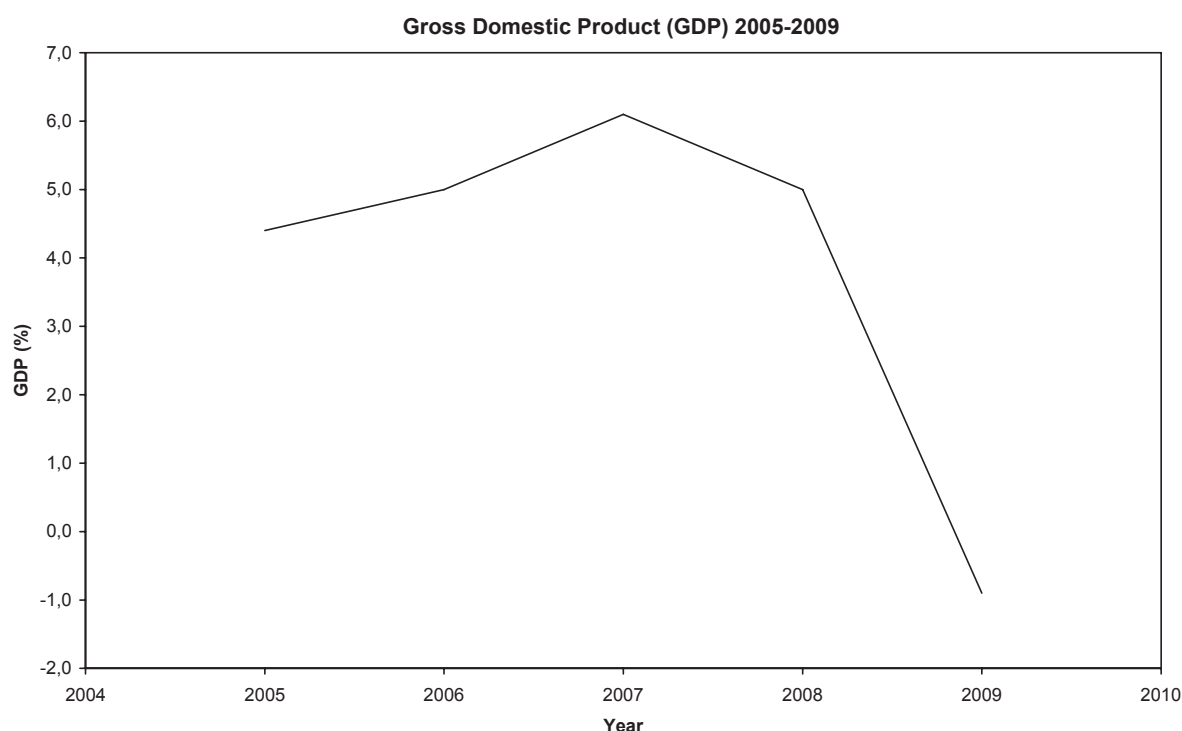
What is interesting to notice is that in 2009 Macedonia has been struck by the world economic downturn (if we take into consideration the real GDP growth rate), but in the same year a decrease in the unemployment rate was recorded. Bearing this in mind, one can conclude that during 2009 the workforce that was negatively affected by the world events were mostly the workers engaged in the grey economy.

Table 7. Gross Domestic Product (GDP) 2005-2009

Year	2005	2006	2007	2008	2009
GDP real growth rates in %	4.4	5.0	6.1	5.0	-0.9

Source: Labour Force Survey, 2009, State Statistical Office, Republic of Macedonia

⁵⁶ Preliminary data



Education

The education system in a country needs to be set up in a way that will serve the labour market and respond to its needs and demands. Every mismatch between these two things should be corrected appropriately and provide positive benefits for both sides.

Until recent years, there has been a serious mismatch between the labour market demand and the labour market supply. Many of the qualifications that the labour market requires, people do not have. Some arguments explaining this situation state that the teaching staff do not have the proper practical experience and that the educational pro-

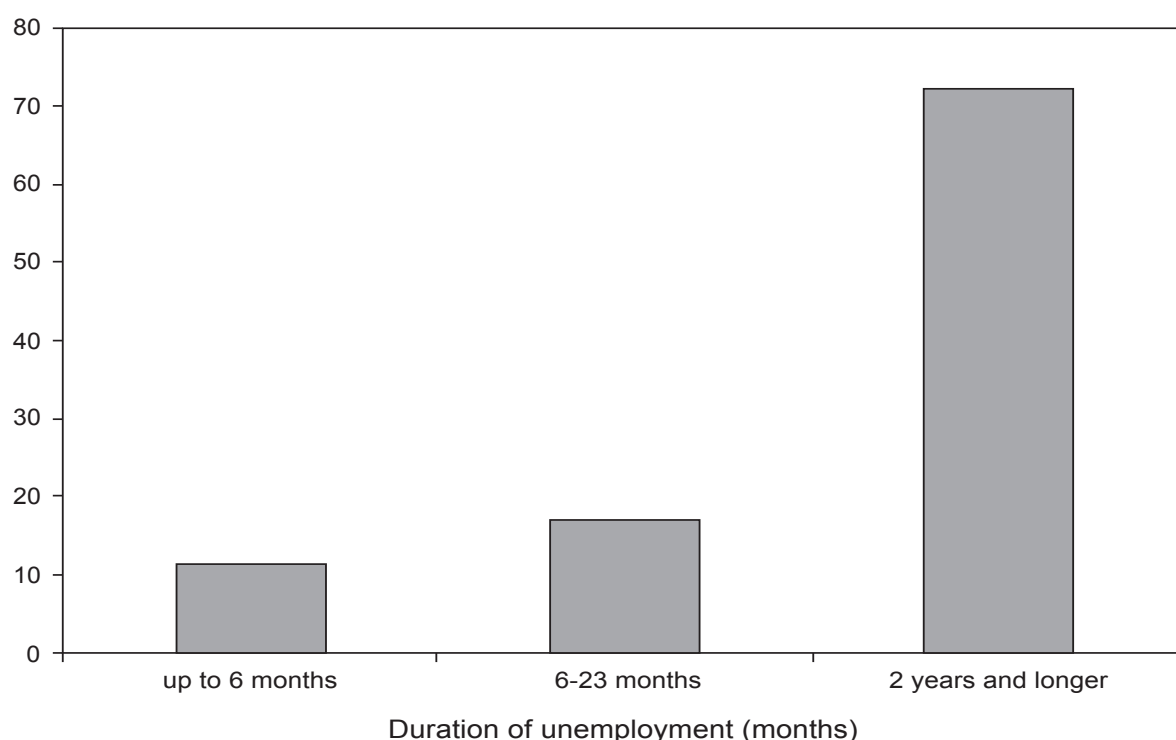
grammes are too oriented towards theory, instead of gaining practical skills. There are plenty of people that lack the contemporary and modern skills and knowledge demanded on the job market. If we take a look at table 8, we can see that most of the unemployed in the country are long term unemployed. Almost 90% of those unemployed are people that could not find a job in more than one year. This shows the lack of appropriate qualification and prequalification programmes, as well as the lack of appropriate formal education. Additionally, the more people wait to find a job, the more they lose their competitiveness because of the new trends and requirements on the labour market.

Table 8. Unemployed persons by duration of unemployment

Duration of unemployment	2005	2006	2007	2008	2009
Total	100.0	100.0	100.0	100.0	100.0
Up to 1 month	2.0	2.2	2.3	3.5	3.3
2-5 months	5.1	5.5	6.2	6.4	8.0
6-11 months	6.1	6.0	6.6	5.2	6.8
12-17 months	6.0	5.4	5.7	5.3	5.9
18-23 months	4.9	3.9	4.6	4.2	4.1
2 years	0.9	0.9	0.8	0.8	0.7
3 years	9.5	9.8	8.8	7.5	7.3
4 years and longer	65.4	66.4	65.0	67.1	63.8

Source: Labour Force Survey, 2009, State Statistical Office, Republic of Macedonia

Unemployed persons by duration of unemployment



The graph refers to 2009

Another serious problem that Macedonia is facing is the so called "brain drain". Many highly educated young people decide to leave the country in their pursuit for a better life and job opportunities. This phenomenon takes away great potential for economic growth of the country. Each year, the World Economic Forum issues a Global Competitiveness Report that reflects the productivity and competitiveness of each country in the world. One of the indicators that this report measures is the "brain drain". In the latest report (The Global Competitiveness Report 2011-2012) Macedonia ranks 133rd out of 142 countries. This highly negative result confirms that the young population do not believe in the opportunities that the Macedonian job market might offer. However, we have to mention that almost all of the countries from Southeast Europe rank similarly to Macedonia.

Taking this negative situation into consideration, over the past five years Macedonia has introduced some major reforms in its educational system. According to the national gov-

ernment, these reforms were undertaken for the purpose (among others) of improving the quality of the labour force in Macedonia and, by doing so, increasing the competitiveness and productivity of the Macedonian economy.

The budget resources allocated for education were significantly increased from 3.5% to 5.9% of GDP in 2008. Many activities have been implemented, such as disperse studies throughout the country, mandatory high school education, studying two foreign languages in elementary school (one starting from first grade), establishing new educational institutions for the purpose of bringing the education closer to the people, stimulating internship programmes, free textbooks for elementary and high school students, implementing different qualification and prequalification programmes, etc.

Unfortunately, the collaboration between the educational institutions and the private sector is far from satisfactory. The appropriate link between theory and practice has not

been established yet. Many employers are not satisfied with the practical skills that the graduates have. Among the key requirements by Macedonian companies are for the candidates to have relevant work experience and be familiar with at least one foreign language.

Furthermore, it has been recorded that employers need people that have basic computer skills. The government has tried to address this issue by providing computer courses for every Macedonian citizen and a voucher for purchasing a new computer for every senior student. Also, a very big project named “a computer for every child” was implemented. 100,000 computers were purchased for the students at every elementary and high school in Macedonia. This is a significant number, bearing in mind that Macedonia has only two million inhabitants.

Regarding the needs for workers with specific qualifications/skills, we might say that system and IT engineers are most in demand on the job market. These professions are not only competitive with respect to the labour demand, but to wages as well. The government is trying to address this issue by opening new educational institutions related to technology, increasing the student enrollment quotas at the existing institutions, providing disperse studies throughout the country, raising the awareness of the gap, etc. Some of the companies that demand this kind of labour have even started to recruit workers/students during their studies. The good news is that the Macedonian State Statistical Office has recorded an increased number of enrolled students in the area of informatics; nevertheless, the results cannot be evaluated yet, due to the fact that this is a long term process and it only started few years ago.

In order to comprehend the rationale of introducing these “structural” reforms into the education system in Macedonia, we outline several objectives that the Macedonian government has taken into consideration:

- Decreasing the school dropout rates
- Increasing the number of students enrolled in higher education
- Improving the quality of education at all levels
- Strengthening lifelong learning and informal education
- Decreasing the “brain drain”

SWOT analysis

Many different aspects about the labour market situation in Macedonia have been described above. Bearing this in mind, a SWOT analysis is presented below that addresses some of the topics:

Strengths

Internship for young people. Over the past few years the need for internship has been raised as an important issue. There are already many governmental and non-governmental projects oriented towards providing internship opportunities for the young future and existent workforce.

Institutional set-up for employment policies support. Macedonia has established a proper institutional set-up for support of the employment policies. Each of the institutions has a well-defined role and tasks.

Employment agencies. There are few private employment agencies trying to do job matching and training. Since unemployment in Macedonia remains one of the worst problems the country is facing, the quantity and quality of these types of agencies needs to be increased.

Attracting investments. The Government has invested great efforts and resources in attracting investments (taxation and fiscal policy, business credits with low interest rate, etc.). The results and reflections on the labour market are yet to be seen.

Self-employment programmes. There is a self-employment programme organised by the government institutions and one donor institution. It has been proven as successful, employing 700 people per year. These types of activities need to be carried out and even increased.

Qualification and prequalification programmes. Through different qualification and prequalification programmes the state institutions are trying to respond to the labour market weaknesses, such as lack of computer skills, foreign languages, etc.

Following the labour market feedback. Since one of the most demanded job profiles on the market is people with qualifications related to technology, the government is trying to provide education opportunities for them by opening new educational institutions and disperse studies. The results of these measures are yet to be evaluated.

Weaknesses

Politicised employment. Many of the young people in Macedonia have the impression that their political orientation is what will provide them with a job opportunity, not their skills or capacity. This restrains them from constant improvement and human capital building. Although this impression is fully deserved, the attitude of these young people needs to be changed.

Biased employment. A large portion of the people in Macedonia believe that the employment processes are rather biased than objective and that most people find a job because of their connections.

Lack of practical skills. Young people lack practical skills. This has been noted by many companies. A company needs to spend at least 6 months preparing these workers for the job they should do. This requires time and money.

Lack of computer skills. One of the key requirements of every employer is basic computer skills. Even though the state institutions have

tried to address this issue, the question is how effective it has been for mature people that lack proactive approach in their way of thinking.

Language requirements. Still there are people in Macedonia that do not speak any foreign language and this is one of the basic job requirements. As described above, changes in the educational system has been made to tackle this issue, however it will take time to see the results.

Opportunities

Quality workforce that has finished the education process. The increase in students enrolled will produce a useful workforce in the near future. This human capital needs to be utilised appropriately.

Opening new private employment agencies. These agencies should provide better job matching, job information and gaining appropriate skills to find a job.

Training centres and companies to offer and provide training according to the labour market needs. The training centres and companies should follow closely the labour market demand and respond to it adequately.

How will the companies respond to the investment incentives? Macedonia introduced attractive investment incentives few years ago. For this measure to take effect, it takes time. An additional problem was the world economic crisis and the companies' caution with respect to their investment plans. Positive results are expected in the near future.

Donor activities. The donor institutions in Macedonia are investing significant resources in different programmes related to employment and business support. This is an additional incentive related to decreasing unemployment.

EU funds. Macedonia is eligible for IPA funds. This European financial "injection" could be a great boost for the Macedonian economy.

Increased labour force flexibility. The increased flexibility in the Law on Labour Relations will stimulate the hiring processes in Macedonia.

Threats

Inequality in a workforce that lacks high quality education. Although more people are engaged in the education process, the question remains: are these changes quantitative and qualitative? If it is just quantitative, were the reforms useless?

People's mentality. Many of the people in Macedonia are trapped in the idea that the government is the source that should provide them with a job and therefore lack a proactive attitude.

Competition for investments. Many countries are trying to increase the level of investments and employment and for that reason offer different incentives. So far, Macedonia has not done so well in its struggle to attract foreign direct investments.

Unfair competitiveness by the companies that are part of the grey economy. Around 25% of those unemployed are workers involved in the grey economy. This unfair competition on the market has a negative influence on the existing companies and their reaction to this can harm the domestic economy.

Recession. Although unlike in some other countries, Macedonia has experienced negative effects due to the economic downturn the world economic crisis has brought. The threat is not over yet, and therefore we need to be cautious and up to date with events.

Brain drain. As noted before, the "brain drain" has a very negative impact to the economy. Most of these people leaving the country are highly qualified workforce. It is something that needs to be addressed immediately.

2.6.4 Employment Policies and Labour Market Institutions

Active and passive labour market policies

As part of the government programme 2008-2012, the state institutions concerned have prepared several documents such as national action plans, annual operational programmes for employment, national strategy for employment etc. In each of these documents, the activities are defined with a clear distinction of the institutions responsible and the delegation of tasks. In order to implement the activities foreseen in these documents, each year an Operational plan for the government's active programmes and measures has been prepared. The operational plan is managed by the Minister for Labour and Social Policy, while the coordinator is the director of the Employment Agency of Republic of Macedonia. Mainly, the programmes and measures in the operational plans are similar, so this is why we will present the Operational plan for the government's active programmes and measures 2010⁵⁷:

- **Self-employment programme.** The objective of this programme is opening 700 new businesses with at least one employee. This programme has been running for several years already. Each participant is part of a training initiative for starting a business and developing a business idea and has the opportunity to receive a €3000-worth subsidy to start a business. A specific target group is eligible to apply for this programme and this is: people unemployed for more than 6 months, young people up to 27 years old that have been unemployed for more than 3 months, and unemployed Roma people.

⁵⁷ All of the measures, activities and programmes are drawn from the Operational plan for the government's active programmes and measures 2010

- **Support for formalising existing businesses.** The objective of this programme is formalising 250 new businesses with at least one employee. This measure is part of the government's fight against the grey economy. The idea is for the officially unemployed to legalise their businesses and become part of the official economy. The foreseen subsidy amounts to €3000.
- **Pilot support for additional hiring in companies registered through the self-employment programme in 2007 and 2008.** For this programme those who are eligible are those companies that have received a subsidy through the self-employment programme and have positive financial results. For each of the new job positions, the companies have the opportunity to receive a €1500 subsidy.
- **Entrepreneurship promotion through the existing business incubators and training for skills highly demanded on the job market.** The purpose of this programme is to support export-oriented companies that use ICT. 30 beneficiaries are targeted, which will receive training in product design and 3D design.
- **Preparation for employment.** In this programme, activities such as qualification, prequalification, counseling, etc. are foreseen. The programme can be subdivided into 5 measures:
 1. *Training, qualification and prequalification for a known employer.* With this measure the Agency for Employment of Republic of Macedonia is helping employers to train new employees (if there are no unemployed with those particular skills). The new employees receive a certain compensation from the agency during the training period.
 2. *Training related to foreign languages and computer skills.* These training initiatives are carried out by unemployed persons for a certain compensation.
 3. *Pilot training initiatives for studying the English language for the catering industry.* The trainers are unemployed persons that receive compensation for their engagement.
 4. *Training initiatives for skills highly demanded on the labour market.* These initiatives refer to specific skills such as those of an electrician in apartment buildings, a gastronomist, etc.
 5. *Training initiatives related to informatics,* where each of the participants receives certificate upon completion of the training.
 6. *Training initiatives related to starting a business.*
- **Subsidising employment.** With this programme, financial support is foreseen for those employers interested in hiring people that belong to one of the following groups: unemployed with a status as children without parents, handicapped persons, single parents, couples with 3 or more children, parents with children with disabilities, unemployed between 55-64 years of age, unemployed people younger than 27 years of age and unemployed people that have lost their job due to insolvency or liquidation and victims of domestic violence.
- **Internship programme.** The objective of this programme is to stimulate internship for unemployed people younger than 27 years of age. Financial support is provided for the interns.
- **Poll for available job positions.** The idea is to gather relevant data about the labour market situation. To implement this activity, unemployed persons will be engaged, who will receive a certain compensation.

- **Support for women that are victims of domestic violence.** Different support activities are foreseen for this target group, such as subsidising, self-employment, qualification and prequalification.
- **Support for Roma people.** Training initiatives for Roma people related to specific skills (plaster work) are foreseen.

For implementation of the operational plan 2010, €8.5 million is needed. Most of the resources are provided by the government institutions and the rest is from different donor organisations.

A very important passive policy that has not been mentioned in the operational plan is that of severance payments, i.e. one of the “cures” of the consequences when someone remains jobless⁵⁸. The Law on Labour Relations has foreseen several obligations when someone remains jobless due to redundancy (because of technological, economical, organisational or other similar changes). If a person is dismissed due to any of these reasons, the employer might offer the employee one of the following:

- To provide employment for that person with another employer with a joint agreement, whereas the working activities will be according to that person's qualifications
- To provide qualification and prequalification in order to work for the same or another employer
- To provide a new employment contract

Related to severance payments, if a person is dismissed due to redundancy, the employer has the following obligations:

- For a person who has up to 5 years' working experience, the employer needs to provide a severance payment to the amount of one net wage.
- For a person who has from 5 to 10 years' working experience, the employer needs to provide a severance payment to the amount of two net wages.
- For a person who has from 10 to 15 years' working experience, the employer needs to provide a severance payment to the amount of three net wages.
- For a person who has from 15 to 20 years' working experience, the employer needs to provide a severance payment to the amount of four net wages.
- For a person who has from 20 to 25 years' working experience, the employer needs to provide a severance payment to the amount of five net wages.
- For a person who has more than 25 years' working experience, the employer needs to provide a severance payment to the amount of six net wages.

When calculating the net wage, the employer needs to take into consideration the net wage the employee has been receiving in the last 6 months before being dismissed. However, this amount must not be less than 50% of the average net wage in Macedonia.

Although, the person's working experience is considered (with all employers), the last employer has the obligation to cover the costs of the severance payments.

An additional measure that we need to mention is the severance payments for persons who have less than 5 years to retirement (men at the age of 64, women at the age of 62). If such a person is dismissed due to redundancy, this person, in the first year after being dismissed will receive 50% of the net wage, and after that, until retirement, will receive 40% of the net wage. In some cases, if the company is

⁵⁸ Lyuben Tomev, Employment Policies in South-East Europe – Theoretical Framework, Friedrich Ebert Stiftung

doing well and has high earnings, the company covers the other 50% / 60% until retirement.

2.6.5 Horizontal Principles

In 1996, the Economic and Social Council (ESC) was established in Macedonia. However, it never started to play its proper role. The reasons for this are that at that time, the structure of the syndicates and their role was not clear; furthermore it seemed that the government authorities lacked the interest to get this organisation going, etc.

In order to improve the social dialogue in the country, on 25th of August 2010, the Government of the Republic of Macedonia decided to establish the Economic and Social Council with an agreement between the Government of the Republic of Macedonia and the social partners such as the representative syndicates and the representative employers' associations in the Republic of Macedonia. In the last few years, Macedonia has been criticised by the European Union with respect to this issue. In order to improve this situation, the authorities have made certain changes to the Law on Labour Relations in relation to defining criteria for an organisation to be a representative of syndicates and/or employers' organisations. Since all of the conditions were met, the Economic and Social Council of Macedonia was established.

Each of the three parties has four members in the ESC. The Chairman of this body is the Minister for Labour and Social Policy. The idea is to establish a dialogue that will reflect or take into consideration the public attitude (employees or employers) towards a certain policy with economic or social impact. This body will be consulted for the preparation and implementation of economic and social strategies and policies.

According to the agreement for establishment of the Economic and Social Council, the

ESC will provide recommendations and opinions for the following topics⁵⁹:

- Economic development
- Labour market policies
- Wage and price-related policies
- Labour and social insurance
- Social protection
- Health protection
- Environment
- Fiscal policy
- Working conditions and protection
- Education, culture and professional improvement
- Other areas that influence the economic and social interests of the employees and the employers

2.6.6 Recommendations

When analysing this policy paper, one could find contradictions. On one hand, there are plenty of measures and policies that are being introduced to improve the labour market situation but, on the other, Macedonia's results with respect to unemployment are highly negative. To explain this situation, we must consider the reasons for the labour market conditions that have been mentioned before and the durability of the process of decreasing unemployment. Many of the measures are expected to have long term effect, and therefore the results might not be visible yet.

It is apparent that the Macedonian labour market is experiencing serious difficulties and, besides the existing policies and measures, we recommend the following:

⁵⁹ The topics are divided as stated in the Agreement for Establishment of the Economic and Social Council

Improve the quality of the workforce

- *Training by relevant experts.* The training, prequalification and qualification should be carried out by professionals and experts. If the people transferring the knowledge are not good at what they do, there is no point in organising this kind of capacity building. The institutions that are providing the training need to make sure that the transfer of knowledge has been carried out successfully and certain positive outcomes will emerge.
- *Training programmes for concrete skills (vocational training).* There are very few existing training programmes organised by the public institutions that will provide specific knowledge. The private sector has underlined this problem as a very important one, and the institutions need to address it more proactively.
- *Reducing matching gaps.* Up to date information on the labour market demand and supply is needed. The impression is that people are not quite familiar with the labour market demand and the result is a situation where there are unemployed people who could not find a job due to a lack of skills and companies that find it difficult to find the right person for the job position they have available. If people bear in mind what the labour market requires, they could orient towards those professions and qualifications.
- *Promotion of lifelong learning in every educational institution in the country.* Since it has been noted that many of the long term unemployed are people with old methods of working, who lack contemporary skills, the promotion of lifelong learning is very important. Moreover, this needs to be included in the programme of every educational institution.
- *Matching the education programmes with the labour market demand.* Through a series of consultations, analyses and discussions between the relevant stakeholders, the education programmes need to be adapted more to the labour market demand. However, this means that the educational institutions need to be well informed of the current labour market events.
- *National Training Fund.* Through the Economic and Social Council and other forms of social dialogue, the authorities should look into the idea of establishing a National Training Fund. This fund will partly be funded by the national budget and partly by employers. The idea is to consolidate the financial resources for capacity building at one place and through a process of consultation with the relevant stakeholders to determine the priorities.
- *Changing attitudes.* Generally speaking, in Macedonia we have a situation where older people feel neglected regarding employment and therefore lack interest in learning and, on the other hand, employers are often interested in employing young people. This situation has to be improved.
- *Promoting research and development.* As part of the efforts to increase the competitiveness of the Macedonian economy and its enterprises, promotion of research and development is essential. So far, Macedonia is not doing well regarding this issue.

Increase employment opportunities

- *Job fairs.* There is a serious lack of organised job fairs in the country. These events provide benefits both for employers and candidates. Employers will have a chance to promote their business, while the candidates will have an opportunity to present themselves in person and maybe attend some public lectures by employers presenting the profile of the ideal candidate.

- *Increase the number of private employment agencies.* These employment agencies could be complementary to the state institutions responsible for employment. They will work on skills matching, early detection of any discrepancies and connecting the companies with the candidates they need.
- *Fund for improvement of competitiveness.* The purpose of this fund is to serve the small and medium sized enterprises with respect to their capital investments. In that sense, any SME would be able to apply for subsidised purchase of new equipment and machinery.
- *Cutting red tape.* Any measure that could decrease the administrative procedures for starting a business, running a business, employment, etc. is helpful for the domestic economy. These measures could be related to lowering costs, less paperwork, less time consumption, etc.
- *Career planning.* The unemployed should have a professional on their side who will guide them in the process of job searching and capacity building.
- *Working from distance.* On the whole the people in Macedonia are not used to working from home. With this measure, the employers will be able to decrease their costs for office equipment, etc. and employ more people. Of course, this measure is not eligible for any type of business, so its implementation should be carried out where it is possible.
- *Less migration to the capital city.* Only by improving the living conditions in other regions and promoting development will the authorities succeed in stopping the migration to the capital city.
- *Increase the human capital in the less developed regions.* Through a series of actions the government should try to increase the human capital in the less developed regions. Besides the existing policies, one could think about scholarships for the young people that live there. These scholarships would be segregated for qualifications that are demanded on the labour market in those regions.

Other concerns

- *Make the grey economy expensive.* This is one of the greatest problems the Macedonian economy is experiencing. The government has to be more proactive related to this issue. A number of measures can be undertaken, such as high penalties for the companies with undeclared workers, increasing the capacity of the labour inspectorate and their activities, increasing the awareness of the costs related to this matter, etc.
- *Employment without discrimination.* One of the reasons why Macedonia is doing so badly when it comes to the “brain drain” is the young people’s disappointment in finding a proper job. Their attitude towards this issue is that candidates are not selected by professional qualifications or skills, but based on a political, ethnic and/or other orientation.
- *Promoting social inclusion.* There are already programmes related to social inclusion. However, the awareness needs to be raised and additional programmes need to be set up.

Regional concerns

- *Improvement of the infrastructure throughout the country.* Not all regions in Macedonia have the same infrastructure conditions. In order to attract investments in every region and promote balanced regional development, this issue needs to be addressed.

- *Evaluation of policies.* Something that Macedonia really lacks is evaluation and benchmarking. Many policies and measures are being implemented but there is no evaluation. In order to improve the process of planning and the actions being undertaken, evaluation and benchmarking is essential. In this way the policy makers will have the chance to improve their actions and make the proper corrections wherever possible.

These recommendations are just a small part of what can be introduced. There are many successful examples and best practices that can be followed. With a proactive approach and a real concern for the issues that trouble us, the objective of decreasing unemployment and promoting economic growth can be achieved.

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2.7 Moldova's Labour Market Framework (2006-2011): Challenges, Opportunities and Scenarios

Viorica Antonov

Abstract

The paper provides an overview of the labour market trends, challenges and employability in the Republic of Moldova in the period 2006-2010. During the period 2006-2010 substantial structural changes were seen in the labour market. These changes were caused by a pronounced demographic crisis facing the Republic of Moldova in the last twenty years, which is outlined with a decrease in fertility and with high infant mortality. Demographic transition effects were aggravated by the difficult times of transition to market economy and population migration. Increasing the coefficient of aging had an effect on changes in the structure of the labour market. The paper draws attention to weaknesses and strengths of the labour market in Moldova, as well to opportunities and risks. The paper also examines the so-called distinctive features of the labour market, such as employment and unemployment trends, current tendencies of active and passive policies, etc.

As many developing countries face rapid aging transitions, Moldova has to strengthen the economic contribution of older workers. The paper uses data from the National Bureau of Statistics of Moldova, and certain reports on case studies of international stakeholders such as ILO and UNDP. The paper reviews the evidence of employment and the job market, such as demographic trends, and gender dimensions of agricultural and rural employment. This paper analyses the problems of Vocational Education and Training in terms of employment.

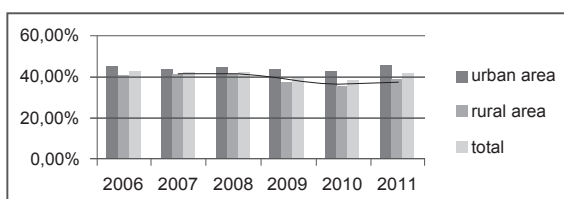
2.7.1 Employment Policies in Moldova: Trends, Challenges and Scenarios

2.7.1.1 Participation in Economic Activity⁶⁰

Over the last decade, participation in economic activity has deteriorated substantially. Data from 2007 show that agriculture was no longer the main sector of employment. It had a participation rate only of 32.8%, being replaced by the service sector with 48.5%, while 12.7% were in industry, followed by the construction sector with 6.1%. In 2010, the situation showed a greater discrepancy between the four dominant sectors. The rate in agriculture was 27.5%, and 59.7% was for services, while for industry it was only 12.8% and for the construction sector it was insignificant.

Having a look at population by participation in economic activity by areas, in the rural area it shows an employment rate 5.8% less in 2010 than in 2006 (chart 1). Consequently, it is evidence for a substantial disparity between urban and rural employment rates since 2006. The key distribution data can be shown in the following chart:

Chart 1. Population by participation in economic activity, years 2006-2011⁶¹



Source: National Bureau of Statistics

⁶⁰ Because of the lack of credible statistical data covering the Trans-Dniester region, the analysis will from now on refer only to right-bank Moldova

⁶¹ Statistical data for 2011 are in accordance with National Bureau of Statistics for quarter II of 2011 for the economically active population (employed population and unemployed persons) of the Republic of Moldova

2.7.1.2 Activity Rate of the Population

There were some fluctuations regarding the activity rate of the population for the period 2006-2010 (chart 2). Due to economic and political factors that have led to the intensive growth of population migration, mainly employment related issues are influenced. In 2010, the activity rate of the population aged 15 and over was 41.6%, reaching values highest among the male population: 45.0%, compared with the

rate for women: 38.6%. The activity rate of the population in 2010 decreased substantially by 4.7% compared to 2006 (table 1).

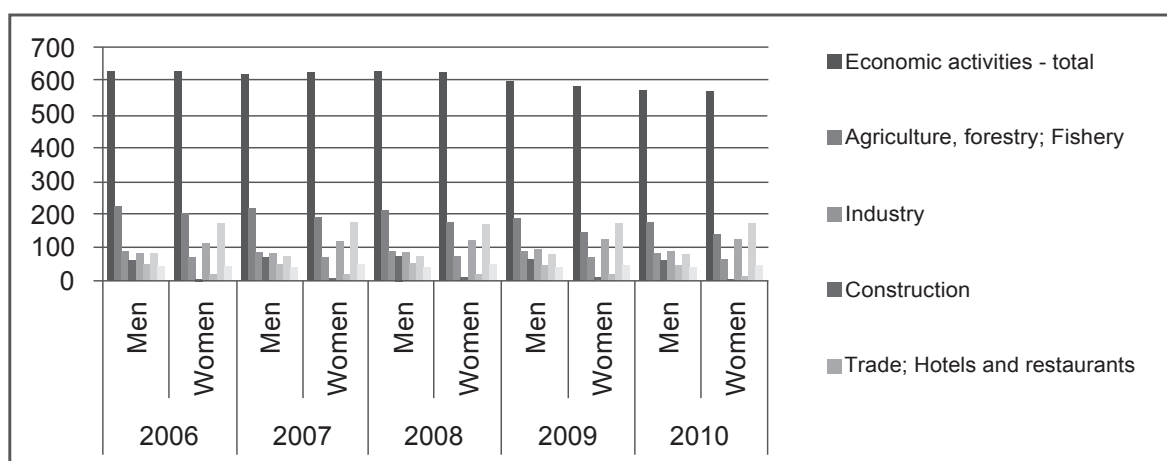
And if we make an abstraction of 2006 and make a comparison of data from 2010 with 2000, then we can observe major changes in employment issues. Thus, the employment rate of the population in 2010 (41.6%) was 18.3% lower than in 2000 (59.9%). The following table illustrates the dynamics of the activity rate of population for the period 2006-2010:

Table 1. Distribution of the population by participation in economic activity, by sex and area

Year	activity rate of population	activity rate of the male population	activity rate of the female population	activity rate of population in urban areas	activity rate of population in rural areas
2000	59.9%	63.9%	56.3%	57.7%	61.5%
2006	46.3%	50.0%	43.0%	49.7%	43.7%
2007	44.8%	47.8%	42.2%	47.1%	39.3%
2008	44.3%	47.3%	41.5%	47.1%	42.2%
2009	42.8%	46.2%	39.7%	47.4%	39.3%
2010	41.6%	45%	38.6%	47.2%	37.5%

Source: National Bureau of Statistics

Chart 2 Distribution of employment in occupational activities by sex, (thousand people)



Source: National Bureau of Statistics

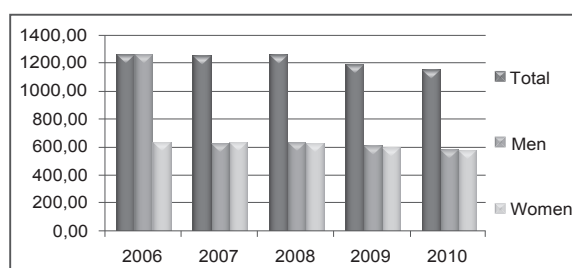
2.7.1.3 Employment Rates

According to the methodology of national statistics of Moldova, the employed population covers all persons of 15 years and over, who

carried out an economic or social activity producing goods or services for at least one hour during the reference period (one week) in order to achieve certain incomes in form of salary, in kind remuneration or other. During the

period 2006-2010 employment rates showed a dynamic change in the direction of decreasing by 113,900 from 1,257,300 people in 2006 to 1,143,400 in 2010. The key distribution data can be shown in the following chart:

Chart 3. Employed population by general status (thousand persons)



Source: National Bureau of Statistics

The chart shows that the total number of employed persons, men and women, estimated according to the National Bureau of Statistics in 2010, was 113,900 persons less than in 2006.

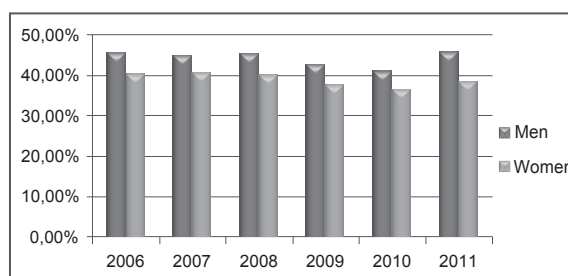
In 2010 the employment rate of the population aged 15 and over was 38.5%, being lower (-4.4%) compared to the value of 2006 and lower (-16.3%) compared to 2000. The men's employment rate was higher (40.9%) in comparison with the women's rate (36.4%). In 2010 the men's employment rate was lower (-4.6) compared to 2006 and for women it was lower too (- 4.1%). The distribution by residence occupancy rate was 42.7% in urban and 35.4% in rural areas for 2010, recording a decrease of 3.5% in urban areas and of 5.8% in rural areas compared to 2006. The employment rate was 42.5% in 2008, being equal to 2007 and 10.8% less, compared to 2002. The highest employment rate (58.4%) was recorded among adults 45 to 54 years old.

A review of the employment rate of the population aged 15 and over by years (2009-2010), shows that it was 38.5% in 2010, being lower (-1.5%) compared to the value of the previous year. While the employment rate

of the population in 2009 was 40.0%, being lower by 2.5% compared to the value of 2008. The female employment rate was lower compared with that of men, the gender gap being 4.9%. The distribution by residence occupancy rate was 43.6% in urban areas and 37.4% in rural areas in 2009. The highest employment rate of 60.0% was recorded in 2009 among adults 45 to 54 years old.

A review of employment rates by sex in the total population shows that women have the lowest employment rate in recent years. If the employment rate of women was 40.5% in 2006 then it illustrates a reduction by 4.1% in 2010. The average gender grading gap across the period 2006-2010 is 1.13%. (chart 4).

Chart 4. Employment rate by sex (2006-2010)



Source: National Bureau of Statistics

It should also be noted that the sex structure of the population of working age in rural areas, between 2001 and 2010, was relatively balanced and stable over time, characterised by an average rate of 32.3% of men and women of 31.4%. The period 2000-2009 is characterised by a degradation of the essential structure of the economically active population by sex in rural areas, which peaked in 2005 (7% in favour of active women), followed by a rapid increase in the share of men economically active, that in 2007 they were more than women in economically active population in rural areas, a situation largely caused by rising female inactivity due to reduced employment opportunities.

Rural women participate more than men in the labour market. In 2009, for instance, the women's activity in the 35-44 year age group has exceeded that of men by about 3.6 percentage points (59.8% vs. 56.2%). In the 45-54 years age group recorded a difference of 1.2 percentage points (61.1% vs. 59.9%).

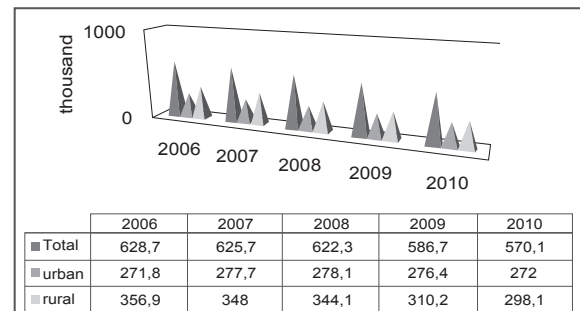
2.7.1.4 Women's Employment

Regarding women's employment in the labour market, we can notice a decrease in recent years. Of the total employed population in the country in 2010 570,100 were women, decreasing by 55.6 thousand compared to 2008 (chart 5). This decrease is due to essential social and economic factors such as:

- An increase in the number of women who earn their living from agriculture;
- An increase in social and economic risks for single mothers;
- An increase in cases of domestic violence;
- Industrialisation requiring a skilled labour force, where women are represented less because of family reasons and not because of lack of education; etc.

In 2010, of the 570,100 women involved in employment, 145,500 women were highly educated, i.e. 28.2 thousand more than the value for men (117,300) during the same period. However, the employment rate of women in 2010 was significantly less (36.4%), compared to previous years, and compared to the employment rate of men – 40.9%.

Chart 5. Women's employment by years and area



Source: National Bureau of Statistics

The small degree of employment of women – 36.4% (2010), is not only due to a lack of well-paid jobs, but was also because of a lower quality and working conditions for women, which might affect their safety and health at work. The female employment rate recorded high levels in areas such as agriculture (24.5%), trade, hotel and restaurants (21.8%), and in public administration, education, health and social assistance (30.2%). The female employment rate in 2010 (36.4%) was the lowest rate recorded in recent years, having reached a value of 40.13% in 2009 and 40.5% respectively in 2008.

In general women's employment in rural areas was more difficult than in urban areas, due to the lack of social facilities and public services. For instance, employment is possible if public transport is provided to urban areas on a regular basis. Also, it is necessary to have access to social services, such as kindergartens and primary schools for their children and health or medical centres for their old parents, if necessary. Unfortunately in many Moldavian villages such a kind of services is seriously lacking.

So, how a woman can be employed in the workforce, with young children and elderly in her care at home, is a puzzle to be solved by local authorities. In conditions of transition to a market economy it is difficult to create an infrastructure in a rural community where most people work seasonally in urban areas,

or even leave the country. Therefore, most women prefer to work around the house, to produce their own goods, or concentrated in agriculture and seasonal work.

There are differences in pay between men and women. These discrepancies can be explained by several factors. The main factors that make up the differences in wages of men and women are horizontal and vertical segregation. Almost half of rural women engaged in agriculture, where they have the least skilled jobs, respectively have a lower salary than men, who hold jobs with certain qualifications. Another factor in the wage gap between women and men is that there are areas where women predominate - "feminised" activities (education, health and public services), but wages are lower than those of men in the same sectors and lower than in sectors where there are more men (construction, transport). Lower wages among women are explained by maternity leave and child care.

Therefore, women earn on average 23.9% less than men, which is 76.1% of the average wage of men, although the principle of equal pay for equal work is legalised in Art.128 (2) of the Labour Code of the Republic of Moldova, which does not admit any discrimination of salary by gender. According to Art. 247 of the Labour Code, lowering wages on grounds of pregnancy or having children aged up to 6 years (for all employees) is prohibited, although this is not respected by all employers.

Wage differentials also influence women's motivation to obtain qualifications bearing in mind the fact that they can pursue an education. Wage inequalities make women financially independent and protect the family from social exclusion and poverty. One of the possibilities for this is work abroad.

2.7.1.5 Rural Employment

The situation of the employed population in rural areas is unsatisfactory. For instance, from 2001 to 2009 the economically active population has decreased considerably, from 950,300 to 669,600 persons (280,700 less), registering a reduction in employment from 924,500 to 636,100 and respectively, a reduction in the number of employees, from 424,600 to 349,700 people. Also, the share of the economically active population in rural areas decreased from 45.1% in 2000 to 34.1% in 2009⁶².

The indicators of economic activity of the rural population show a decline. This has caused a significant increase in the inactive population (aged 15 years and over). Thus, during 2001-2009 the number of inactive persons increased from 680,900 to 1,032,500 (an increase of 351,600 people), a relative increase of approximately 1.5 times. As a result, the share of inactive population in the total rural population increased substantially from 31.8% in 2001 to 48.1% in 2009 (Tables 1 and 2).

It should be noted that the general rate of employment in rural areas is lower than in urban areas, due to the low concentration of industrial facilities and public services in rural areas. Because the solution of social problems in rural areas depends largely on urban links with key providers of social services, training, education and healthcare, most of the rural labour force travel to the suburbs and urban regions for informal employment. We can see from table 2 that there has been an extensive decrease in employment rate in rural areas, by about 5.8% since 2006. This factor is a consequence of the high rate of migration of the labour force from rural areas to urban areas, but is also due to emigration out of the

⁶² National Bureau of Statistics of the Republic of Moldova, Labour Market in the Republic of Moldova, Statistical Compilation 2010, Chisinau, 2011

country. According to the most recent data, the number of the population aged 15 years and over from rural areas, working or looking for work abroad has increased.

Also, entrepreneurship is insignificant in rural areas. According to a certain study⁶³ the grounds raised by the rural population for not creating their own business are basically similar to those raised by the urban population. High cost and limited access to credit are the most important impediments to launching new businesses in Moldova.

State policies to improve rural areas in Moldova are poor in action. Because of increased disparities between rural and urban development, the government adopted a series of documents in order to increase investment in rural areas and improve living standards of the rural population. For instance, the fundamental document has been approved for rural development - The "Moldavian Village" for the years 2005 to 2015. The programme cost more than twice the country's national public budget for 2008 - 45 billion lei. During the years 2005 - 2007, the government invested 1,890 million lei in projects of social infrastructure, but there was no investment in people to people. As a result, several villages were supplied with gas and water, the cost of activities being only 4.2% of the total cost of the programme. Otherwise the programme has failed because of many reasons. Instantly, the project was focused on rural areas where there is not so much infrastructure. The real problem is not so much that there is not enough infrastructure, but because there are no permanent jobs, just seasonal ones and young people migrate to urban areas or abroad. The Moldavian villages are becoming aged. Nowadays, there are certain villages

with only four residents instead of 400 residents about 20 years ago. Poverty in rural areas has increased substantially. Many houses are abandoned in rural areas.

2.7.1.6 Demographic Challenges

During 2000-2010 the population of the Republic of Moldova declined by 83,100 persons (2.3%). The population decline occurred mainly in urban areas. Urban population in the last decade has decreased by 3.4%, while the rural population for the period decreasing by only 1.3%. Along with population decline, there are essential changes in the age structure of the population. According to the latest census data from 2004 and current statistics, the population older than 60 years increased from 7.7% in 1959 to 14% in 2009, while the number of children from 0-14 years of age decreased substantially from 33.4% to 16.7%. Also, according to certain experts⁶⁴, the correlation percentage between men and women (number of women for 100 men) decreased from 108.8 in 2003 to 108.0 in 2009, characterised as a negative phenomenon in terms of demographic perspectives. This means the demographic aging process in Moldova is faster than in other European countries. At the same time, the ratio between the total employed population and the total number of pensioners is high. Demographic trends in Moldova show a reduction in the number of the population, which leads to aging of the population. A key factor is that the number of births exceeds that of deaths. In this context, according to the Green Paper of the Republic of Moldova (2009, p.10), in the period of 1990-2008 there was attested a sudden drop of the birth rate, from 17.7‰ down to 10.9‰

⁶³ Mateusz Walewski and others, The effects of migration and remittances in rural Moldova and of migration management: a case study in Poland. Final version 30.XII.2008 (CASE, Central for Economic and Social Research – December 2008), p.16

⁶⁴ Oleg Galbur, Report On the assessment of demographic process (by age, gender, environment, trends for the next 10 years) and morbidity analysis in the Republic of Moldova, neighbouring countries, and European Union, trends and changes in the last 7 years (Ministry of Health - Chisinau 2010), p5.

(nearly halved). Also, according to the statistical analysis of the past decade, 68-70% of the live new-born babies were born to mothers belonging to the age group 20-29 years. Increased mortality is a consequence of demographic aging. At the same time, a high mortality rate among the male active population contributes to the aging population. During the transition period for a decade (1985 - 1995) the high mortality rate for the male population in the age group 24-29 years increased from 2.75 to 3.52 points. Later this rate shifted to a more mature age, and now is registered in the age group 44-49 years.

In terms of demography it is considered that if the total fertility rate is less than 1.5 it is a critical situation, which will contribute to the suppression of birth for the future and achieving population growth will be very difficult. Among other things, we notice that dynamics of age-specific fertility rates are characterised by a shift from the 15-24 to the 25-34 age group. The trends are similar for urban and rural areas. However, in rural regions, this process is less pronounced and the most noticeable change is associated with a decline in birth rate at the age of 15-19 and its increase at the age of 20-29. A low birth rate has a big impact on the dynamics of the Moldovan population age structure, determining the number of births in the next decades.

The main focus of the demographic policy in point of birth rate should concentrate on the 20-29 age group, which determines the birth rate of the population in the current stage, and on encouraging the birth of the second child and of the following ones. Today's young families are prepared and wish, in most cases, to have only one child at an older age. Mothers tend to give birth to their first child when they are somewhere around 30 years of age. They prefer to travel until this age, to pursue their studies and to advance in their professional life. In this order, there is

a need to encourage childbearing (marriages, including cohabitation) among younger couples, and reforms in social policy in order to improve the negative consequences of demographic trends.

Otherwise, the postponement of child-birth brings major differences to the age structure of the labour market in the coming years, when it will feel an acute shortage of young people coming into the labour market and a large discrepancy between the age groups of the employed persons. As a consequence of an acute shortage of young people, the labour shortage will create winners and losers in the labour market. Throughout this problem, we may add the problem of an aging population in general. In recent years, the number of people aged over 60 has remained virtually unchanged, but in 2010 the population aging coefficient increased by 0.4, representing 14.4%. Presently, the rate of aging of the population in Moldova is 15.1%. The process of population aging is more advanced in rural areas, where the number of people aged over 60 years is 15.2% of the total rural population, compared to 13.2% in urban area.

Today there are substantial differences in the age category of the population in urban and rural areas. In rural areas there is a higher number of children and the elderly, which is a consequence of migration of the labour force abroad, while in urban areas there is a higher number of people in the age group 15-64 years.

Demographic trends have a substantial impact on the size of various age groups, including populations of working age. As a consequence of demographic trends, the labour market has changed markedly in recent decades. The high-skilled labour market has mostly emigrated abroad, while new waves of skilled labour force are not competitive in the labour market because of the incompatible education (knowledge) with labour mar-

ket demand. The Moldavian labour market has lost its competitiveness and it is not attractive for return migrants.

At the same time, reducing the total number of people, especially the economically active population and increasing the number of older people (pensioners) leads to increased economic pressure. In the last decade, some changes might be observed in this correlation, certainly from 2.3 economically active people (workforce) per pensioner in 2001 to 1.8 ac-

tive people per pensioner in 2010 (Table 2). In this way, the population aging process goes from a demographic stage to an economic and social phase. In terms of the demographic aging process, Moldova as well as other states, will have to redirect an increasing share of public funds for social payments. Therefore, the redistribution of public funds will increase the tax burden on individuals and on the businesses sector. This will increase the undeclared (envelope) wages.

Table 2. The ratio between the total population and economically active population to pensioners, the years 2006-2011

Indicators	2006	2007	2008	2009	2010
Whole country population (thousands)	3589.9	3581.1	3572.7	3567.5	3560.4
Population employed	1257.3	1247.2	1251.0	1184.4	1143.4
Number of pensioners (thousands)	620.6	620.4	622.2	624.1	626.7
The ratio between total population and pensioners	50.8	00.6	50.7	50.7	50.7
The ratio between total employed population and pensioners	20	20	20	10.9	10.8

Source: National Bureau of Statistics

The aging of the population is caused by two factors. Firstly, Moldavian families are having fewer children, as a consequence of the low income, high risk of unemployment, low social assistance for child care, no family policy protection, political instability, etc. The government of Moldova has introduced few changes to taxes and benefits to assist families (single allowance for childbirth - about 88 euro), but this assistance is incompatible with the minimum consumption basket (about 94 euro in 2010). Secondly, the migration processes and the access of the migrant workers to the social security measures in host countries, show an increase in the chances to give birth to a child in host countries. According to official data, over 20,000 Moldovan children are now in

Italy. The decision to have children is certainly an individual one. However, governments can ensure the programmes facilitating an increase in fertility rate and develop programmes that do not undermine family support.

2.7.1.7 Migration

The social crisis in Moldova affects society so that thousands of Moldovan citizens leave the country annually to work abroad. About a third of Moldovan migrants are university graduates who have given up low-paid public sector jobs. Temporary migration for work seriously affects the labour market and is a current risk to the sustainability of the pension system. Among others, there are factors

that determine the population who are highly qualified and well trained to look for a job abroad. First, the labour market in Moldova is incomplete in terms of diversity and quality of supply and demand. Secondly, the workforce is highly skilled and professional, discouraged by the monotonous character of the correlation between supply and demand, as unskilled labour finds work faster than the highly skilled. Over the last decade, due to the background reduction in the total population and the economically active population in particular, the number of people involved in migration processes, with some fluctuations, is growing. Thus from 2001 to 2010 the number of people going to work abroad increased from

138 thousand to 311 thousand persons, in relation to the working age population, which increased from 10.6% to 27.3%.

At the same time, some changes are recorded in migration trends by area sector. In 2006 the number of the population from rural areas working or looking for work abroad was about 217,400, in comparison with 92,700 from urban areas. Then in 2010 the number of the population who migrated abroad increased up to 220,500 from rural areas compared with 90,600 from urban areas. Configuring all the references in the following table, we can see that the number of the population who migrated from rural regions is permanent higher than that from urban areas (Tab 3).

Table 3. Population aged 15 years and over, working or looking for work abroad by Sex, Years and Area

	2006			2007			2008			2009			2010		
	whole country	urban	rural	whole country	urban	rural	whole country	urban	rural	whole country	urban	rural	whole country	urban	rural
both sexes	310.1	92.7	217.4	335.6	103	232.6	309.7	97.1	212.6	294.9	89.5	205.4	311	90.6	220.5
men	197.8	56.3	141.4	219.3	62.8	156.5	201.5	59.5	142	185.8	54.9	130.9	198	54.6	143.3
women	112.3	36.3	76	116.3	40.2	76.1	108.3	37.7	70.6	109.1	34.5	74.6	113	35.9	77.1

Source: National Bureau of Statistics

This also could have an explanation the lack of opportunities to have a job, poor infrastructure, etc. There is some sign that the migration is not an indirect reason of this low rate of participation of the population in economic activity, as its recent trend shows some improvement in 2011 for rural areas. But the rate of change is very slow and for the coming years it might be changed if the lack of opportunities to employment continue to be in rural areas. Moldova could face a massive depopulation of rural areas in the coming years.

The labour market should fully reflect recorded success or failure of the national economy. But from what we see, unfortunately, it may be reduced to an acute lack of diversity in terms of labour market needs. Unemployed persons do not develop their skills, even if there

is access to training courses offered by the employment agencies. Often, those available on the labour market have a low level of training and practice. Most of the available labour force face the challenges of compatibility with the labour market demand, or they are less compatible with the labour market demand.

Also, people decide to go to work abroad because of unsatisfactory access to social security measures. However, the practice of states with migration experience reveals that young men and women involved in migration processes are more flexible to accommodate faster, integrate more easily into host societies and are more likely to remain permanently abroad.

Departure of persons from rural areas, especially women, to work abroad is a sensitive

issue both in terms of demographic processes and the functioning of the labour market.

The number of women involved in migration in the period 2006-2010 increased from 112,300 to 113,000. Over the last decade the number of people leaving rural areas has steadily grown (from 82,100 in 2000 to 220,500 in 2010). If we refer only to the period 2006-2010, we see that there were serious discrepancies between the number of people who left rural areas, there being a continuous increase (from 217,400 in 2006 to 220,400 in 2010), and those who left urban areas, where there was a nonessential decrease in 2010 compared to 2006 (2100 less) (Table 4).

Table 4. People who left temporarily for work abroad (thousand)

	2006	2007	2008	2009	2010
Total persons going abroad (thousands)	310.1	335.6	309.8	294.9	311.0
By sex					
Men	197.8	219.3	201.5	185.8	198.0
Women	112.3	116.3	108.3	109.1	113.0
By area					
Urban	92.7	103.0	97.2	89.5	90.6
Rural	217.4	232.6	212.6	205.5	220.4

Source: Labour Force Survey of Moldova, employment and unemployment, NBS, 2010

2.7.1.8 Working Age Population

Demographic challenges, such as migration and aging population, influence the structure of the labour market, making the working age population a favourable segment of labour market. Thus, in the period 2001-2010 (situation at 1 January) the number of the working age population increased from 2,210,500 persons to 2,371,300 persons (or by 7.3%), with a more pronounced increase for male (9.2%) and with a more moderate for the females (5.3%). The employment rate of the population of 15-64 years (the working age according to EU requirements) was

43.0%. The analysis of the structure of employed population by age groups reveals that the share of young persons (15-24 years) represented 10.3% from the total, 74.3% of adults (25-54 years), and 15.4% of persons of 55 years and over (Table 5).

Table 5. Employment rates by age group

	2006	2007	2008	2009	2010
15-24 years	132.3	120.2	124.3	121.3	117.8
25-34 years	252.2	247.7	254.2	244	275.8
35-44 years	301.2	310.5	308.1	288.8	262.8
45-54 years	372.5	359.8	354.6	339.5	311.1

Source: Source: National Bureau of Statistics

2.7.1.9 Youth in the Labour Market

Engaging in employment after graduation is the dream of any graduate. But unfortunately, the education system is not compatible with the needs of the labour market and real economy. Curricula are modernised, but not in compliance with the labour market. Therefore, many employers prefer to hire young people with experience rather than young graduates, despite the fact that the labour force is steadily decreasing, including the highly-qualified labour force.

Analysing the evolution of the main indicators of the youth labour market, it is observed that during recent years the number of economically active population aged 15-29 years decreased from 388,400 people in 2000, to 298,600 people in 2010. The activity rate decreased from 45.3% in 2000 to 30.8% in 2010. At the same time the employment of youth decreased substantially by 77,200 people in the last decade (2000-2010). The employment rate has recorded a decrease by 12.5% in 2010 compared with 2000. A decrease took place in the evident conditions of growth of population aged of 15-29 years of age. Analysing the demographic data structure for the last ten years, we observe an in-

crease of 113,700 people in population aged of 15-29 years. This factor is essential, due to the increased number of people born in 1980-1990. On the other hand, the unemployment rate among youth is almost the same in 2010 as in 2000 - about 14%.

While youth employment is one of the main objectives of national policies in the labour market, such as the National Employment Strategy of Moldova for 2007-2015, the National Development Strategy for 2008-2011, National Youth Strategy 2009-2013, youth unemployment is not diminished. For example, under the Youth Action Plan for 2010 of the Ministry of Youth and Sports there are priority actions offering a number of young people assistance with regard to their professional orientation. In this sense, job fairs are held. However, young people do not tend to find a job quickly. And in this sense, there is an explanation. The labour market in Moldova is homogeneous and unsustainable. Young people do not want to be employed with very low salaries and poor working conditions. It is among the main reasons. Considering the fact that the economic activity of young population is concentrated mostly in urban areas, unemployment in the countryside is especially evident. Measures are needed for economic and entrepreneurial skills for youth in rural areas. There is a need to create new and better jobs in the competitive private sector.

Also, there is no underlined transparency on the labour market. Unfortunately, getting a job through a relationship based on nepotism is evident, which reduces the opportunities of the highly motivated and professional young people to be employed on their merits.

In a market economy, career planning is a natural thing. Young people in Moldova, who include fresh graduates, are lacking in information and career assistance within the universities. A lack of such services affects young people very much to find competitive

and efficient jobs. Improving career guidance for young people must be the emphasised policy of each university or professional school oriented to labour market needs. Only thus can there be a more flexible relationship between academia and the labour market demand. Helping students in career planning and job search skills reduces the amount of time when they remain unemployed and familiarises them with the new opportunities on the labour market.

2.7.1.10 Unemployment Rates

There are complex processes which define unemployment. As usual, the unemployment variable expresses the direct role of labour market conditions. Initially there is a lack of opportunity on the labour market. Instead of this traditional reason, the unemployment is also increasing on the labour market due to several factors. First of all, the skills mismatch between demand and supply is sensitive. This mismatch comes about because many job seekers do not have skills and abilities required in the vacancy, despite their high qualified diploma of graduation. This is happening because previous generations of specialists have spent years working and gained experience which became a motto and when these qualified people leave their jobs for a more interesting vacancy, their duties become a framework for the term of references. But also, fewer vacancies require high skills and competences and this factor discourages young people to learn well and be competitive. The fact that there is a lack of opportunity to gain training and experience in related fields in the labour market agencies should not be excluded. Along with these factors, we can also observe that many unemployed workers fail to apply for unemployment insurance, due to paperwork bureaucracy.

In 2010 the number of ILO unemployment was of 92 thousand people, an increase of 11 thousand compared to the previous year (2009). Unemployment affects mainly men – 62.3% and people in urban areas – 62.4%. At the survey date, only 2.9% of the unemployed were attending training courses. It is necessary to mention that 73.7% of the unemployed were people with work experience. Average unemployment duration represented 13 months, compared to 14 months in 2009. The share of unemployed in long-duration unemployment (one year and over unemployment) represented 30.8%. 15.3% of them were young people (15-24 years). The share of people in very long duration unemployment (24 months and more) represented 12.8% of the total number of unemployed. Approximately 40% of the total unemployed declared themselves as heads of households.

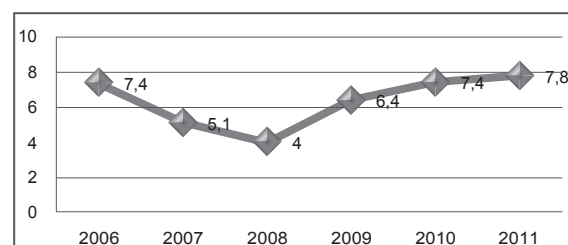
At country level, the unemployment rate in 2010 registered a value of 7.4%, in increase of 1.0 percentage points compared to the previous year (Chart 6). Significant disparities were registered for the unemployment rate for men – 9.1% and women – 5.7%; urban – 9.6% and rural areas – 5.4%.⁶⁵

The situation in 2009 shows that the number of unemployed persons was about 81,000, registering a growth of 30.7 thousand compared to 2008. Unemployment affects men – 62.7%, and people from urban areas – 58.6% more seriously. It is necessary to mention that among unemployed persons 76.8% were persons with work experience. The average length of unemployment decreased by 2 months compared to 2008, registering a total period of 14 months. In 2009 the share of long-term unemployment (unemployment of 1 year and more) dropped to 27.9%, from 31.1% in 2008. The share of

persons that were included in very long-term unemployment (24 months and over) was 14.3% (compared to 17.7% in 2008) in total of unemployment. The unemployment rate at the country level had a value of 6.4% in 2009, increasing by 2.4 p.p. in 2008. Significant discrepancies were registered between the unemployment rate for men (7.8%) and for women (4.9%); and between the urban area (8.0%) and the rural area (5.0%).⁶⁶

Compared to 2007, unemployment in 2008 was about 51,700, decreasing by 15,000. In 2008 unemployment affected men to a greater extent (58.0%), and people from urban areas (63.2%). The share of long term unemployment (12 months and more) reduced from 35.5% in 2007 to 31.3% in 2008. Very long-term unemployed persons (24 months and more) were 17.7% in 2010, while in 2007 they were 20% from total number of unemployed. The unemployment rate at country level was recorded as 4.0% in 2008, being 1.1 p.p. lower than in 2007. The biggest decrease registered was for men (-2.6p.p.). Significant disparities between the unemployment rate of men (4.6%) and women (3.4%) were registered, as well in urban areas (5.5%) in comparison with rural areas (2.7%).⁶⁷

Chart 6. Unemployment rates (2006-2010)



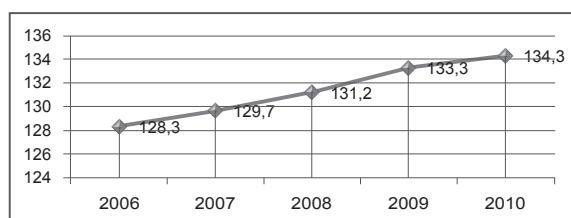
⁶⁵ National Bureau of Statistics of the Republic of Moldova, Employment and Unemployment, Chisinau, 2011, p. 20

⁶⁶ National Bureau of Statistics of the Republic of Moldova, Employment and Unemployment, Chisinau, 2010, p. 21

⁶⁷ National Bureau of Statistics of the Republic of Moldova, Employment and Unemployment, Chisinau, 2009, p. 23

A moment of difficulty is labour market integration and eventually finding a job. Currently, a large number of people with disabilities do not have jobs, which creates difficulties in finding sources of revenue for maintenance and daily mobility needs, including medical care. Most employers prefer to employ no people with disabilities, having the wrong perception about underestimating their intellectual capacity and skills. They are disqualified instantly from the labour market, despite national legislation and the labour law that protect their right to work. Indeed there is a vicious circle around the right to work for people with disabilities, when the law allows them but employers are reluctant to hire these people because of stereotypes. However, most people with disabilities are not able to work and they survive just with welfare.

Chart 7. People who claim disability allowances, by sex and age groups, 2006-2010



The Parliament of Moldova approved the Strategy of social inclusion of persons with disabilities (2010-2013) in July 2010⁶⁸ after the UN Convention on the Rights of Persons with Disabilities was ratified by Moldova in July 2010. In Moldova, persons with disabilities are marginalised and need all the support to overcome this situation (chart 7). A moment of difficulty is the labour market integration and eventually finding a job. Currently, a large number of people with disabilities do not have jobs, which creates

difficulties in finding sources of revenue for maintenance and daily mobility needs, including medical care.⁶⁹

Besides all this, unemployment amongst disabled people is acute. The number of people with disabilities is increasing. However, economic and social policies can do little more than today, being concerned about the disproportionate lack of opportunity with high levels of poverty and unemployment amongst disabled people.

The total number of persons with disabilities was 141,400 in 2002. Then from 1 January 2010 their number went up to 176,253. The share of women in the number of people with disabilities is about 48% and there are 52% of men. Approximately 60% of the total number of persons with disabilities live in rural areas. Among people with disabilities, the predominant age is between 40 and 59 years, representing more than two thirds of cases.

The number of people with disabilities who receive public pensions through the social security system is increasing. The number of people with varying degrees of disability who are pension beneficiaries reaches about 24.8%. Thus, every fourth recipient of a pension is a person with a degree of disability.

2.7.1.11 Youth Unemployment

In 2010 there were 970,000 people aged 15-29 years or 27.2% of the total population. The unemployment rate among this age group is 16.5%, which means 1.8 times higher than the unemployment rate on a national scale (9.1%). According to the National Bureau of Statistics, in 2010, only 22% of young people found a job immediately after graduation from the educational system. A quarter left their

⁶⁸ Law for approval the Social Inclusion Strategy for persons with disabilities (2010) No. 169 from 09.07.2010.

⁶⁹ Viorica Antonov, Equal Opportunities, Inclusion and Social Protection of Persons with Disabilities, Social Monitor, no. 4 (IDIS Viitorul- Chisinau 2010): 15-19, http://www.viitorul.org/public/2955/ro/MONITORUL_SOCIAL%20dizabilitati.pdf (accessed 23 august 2011)

first job because of low wages, and 17.7% went to work abroad. Young people in cities had greater success in finding a permanent job than those in rural areas (75% vs. 54%).

The unemployment rate among young persons (15-24 years) in 2010 represented 17.8%, with 2.4 percentage points more than in 2009. The sex discrepancies in the unemployment rate among young persons are notable: 20.0% for men and 15% for women. The share of young persons in total unemployed remained the same: 27.8% like in the previous year. The unemployment rate among young persons (15-24 years) in 2009 was 15.4%, 4.2 p.p. lower than in 2008. No significant differences were registered for young persons in the distribution by sex: 15.8% for men and 15.0% for women. The share of young unemployed persons in the total of unemployed persons has dropped from 30.2% to 27.3% compared to the previous year. Long term youth unemployment (six-months and more) increased from 30.3% in 2008 to 32.8% in 2009.

The youth unemployment rate (15-24 years) was 11.2% in 2008, compared with 3.2 p.p. lower than in 2007. Youth unemployment registered discrepancies between young men and women (10.2 and 12.4%). Youth unemployed in the total of unemployed people was 30.2%, keeping the share of the previous year. Long term youth unemployment (6 months and more) decreased from 35.2% in 2007 to 30.3 % in 2008.

In Moldova creating labour supply is determined mainly by two factors – economic situation and migration. Young people who do not leave abroad to work usually handle their own business, working in NGOs or media, or are civil servants. Few young people are interested in agriculture, in fisheries and in handicrafts. Attracting and supporting vulnerable young people to the labour market and orienting them towards non-agricultural activities is the tendency of national pro-

grammes in the last decade. Young people with fewer qualifications work seasonally in rural areas in the country and abroad. This work is ideal because it does not require experience, but a healthy physical condition and the ability to do everything on time. Young people with qualifications face the risk of being in long-term unemployment, as their job requirements are higher than of those without qualifications. As evidence, youth unemployment is largely due to low wages and lack of opportunities in jobs offered by the work of employment agencies.

2.7.2 Labour Market SWOT Analysis

Strengths

In the Republic of Moldova the dramatic recent economic recession has reflected on many aspects of the national economy and the labour market. As a consequence, the demand for skilled labour has lessened in some of the target sectors, such as construction, services and industry. Despite this, the labour market has tried to maintain its strengths inter-related with the economic development and remittances. A few strengths have been identified:

- Encouraging measures have been taken to integrate Vocational Education and Training (VET) into a broad framework of provided services in the labour market by the National Employment Agency (NEA);
- Free-of-charge services of vocational orientation and psychological support concerning the career issues of the job-seekers have been introduced;
- There is Unemployment Aid;
- There has been development of the ability and personal trust among job-seekers in order to take decisions concerning their own career;
- There is training in the field of methods and techniques of job-seeking;

- There is a significant proportion of economic activity in agriculture and services;
- There is implementation of job broking services. The job broking function of the self-service system is to provide employers and workers with access to the database of vacancies and jobseekers, supported by a search system;
- Partnerships with public and private education institutions have been established;
- People employed in the informal economy (about 30% of the total employed population) are vulnerable to economic exclusion;
- Limited employment opportunities increase the risk of exclusion of the entire household if none of its members is employed;
- The lack of income opportunities creates an unemployment trap and low unemployment allowances (the average allowance in 2009 was 789 lei, some 71 USD or 51 EUR, or only 29% of the average salary in the country) do not cover the living costs of unemployed persons.⁷⁰

Weaknesses

A number of weaknesses have been identified. Many of these are inter-related, e.g. the predominance of low skilled occupations and a high proportion of low paid jobs, inadequate wages for many jobs and low-cost high-skill workforce, limited employment opportunities with a lack of income opportunities, creating an unemployment trap:

- The labour market is not flexible;
- There is rising gender inequality;
- There is rising wage inequality, especially in the urban labour market;
- The lack of employing opportunities, especially in rural areas, is of importance;
- There is weak control across many sectors of the labour market;
- The educational offer does not fit the needs and expectations of the labour market demand;
- There is a lack of qualifications among young people;
- The economy produces too few jobs;
- There are inadequate wages for many jobs;
- High-skill workforce is low-cost;
- The social programmes for both women and men in the labour market have outdated vision;
- There is a low level of mediation vacancies;
- There is a high share of the informal sector and high dependency on remittances;
- There is no expansion of employment opportunities in conditions of urban population growth (mostly because of the migration of the rural population to urban areas). De facto, there is no urban economic growth;
- Envelope wages account for a large share of informal employment;
- The level of informal employment is relatively high – 61.3%;
- Younger and older workers are especially likely to be employed informally;
- Older people are barred by age restrictions from working in the formal sector;
- A large proportion of rural population is not active in the labour market. In other words, it does not have a job, nor is it looking for a job.
- Regulated and constantly updated information on the labour market is missing;
- Women have been seriously affected by the lack of employment opportunities;
- Seasonal and part time employment is frequent.

⁷⁰ United Nations Development Program, From Social Exclusion Towards Inclusive Human Development, Chisinau, 2011

Opportunities

- The role of education and training of human capital can be increased to support increased economic competitiveness;
- There could be better information on the specifics of the labour market;
- Accessible services could be closer to clients;
- A comprehensive monitoring system on the labour market could be introduced;
- Persons released from detention institutions and victims of human trafficking need to be supported through targeted interventions;
- There could be diversification of the country's labour forces from large sectors to local-based employees;
- Inactive and discouraged persons could be targeted as one of the main tasks of the public employment service;
- The trilateral partnership for labour market training should be encouraged, between NEA, the service provider and the jobseeker;
- The functioning of the labour market and the implementation of employment policies should be improved;
- The development of partnerships with central and local public authorities could be encouraged;
- Small business, particularly start-ups and self-employed, with training in the area of basic business skills could be made a focus of attention;
- Migration of qualified labour force towards the European Union is a potential problem;
- Substantial migration leads to a fall of human capital and a rise in the average age of the labour force;
- Inactive and discouraged persons are the most frequent victims of indecent work and illegal migration;
- There are economic constraints;
- The rise of unemployment among graduates of high-school and university is an issue;
- There is a weakening education system not connected to the national economy trends and challenges, which undermines the workforce quality and sustainability of the labour market;
- Reforms to Moldovan employment policies will not make it easier to hire workers and they will not reduce the costs to the employer of making modifications to the size of their employed labour force;
- There is a mismatch between school and tertiary education level curricula and labour market needs;
- Unattractive jobs and low salaries are a problem.

Threats

In terms of maintaining stability on the labour market, specific risks have been identified.

- The labour market offers new opportunities to workers, while, at the same time, the risk of social exclusion is increasing.
- Some categories of workers, especially in rural areas, are more exposed than others

to the risk of unemployment and non-productive employment;

- ers to the risk of unemployment and non-productive employment;
- Migration of qualified labour force towards the European Union is a potential problem;
- Substantial migration leads to a fall of human capital and a rise in the average age of the labour force;
- Inactive and discouraged persons are the most frequent victims of indecent work and illegal migration;
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- The rise of unemployment among graduates of high-school and university is an issue;
- There is a weakening education system not connected to the national economy trends and challenges, which undermines the workforce quality and sustainability of the labour market;
- Reforms to Moldovan employment policies will not make it easier to hire workers and they will not reduce the costs to the employer of making modifications to the size of their employed labour force;
- There is a mismatch between school and tertiary education level curricula and labour market needs;
- Unattractive jobs and low salaries are a problem.

2.7.3 Active Labour Market Policies

Moldova is undergoing a difficult process on the labour market, which is characterised from one side by sectoral shifts, small-business development, public sector reform and, from the other side, by rising migration and an aging population, all of which are likely to reduce the large numbers of employment options. The labour market is still in a transitional stage, and generates strong structural, territorial, occupational and professional imbalances. It includes both mechanisms inherited from the socialist economy as well as specific elements of a market economy.

Moldova has ratified eight fundamental conventions of the International Labour organisations, including the Employment Policy Convention, 1964 (No. 122), the Discrimination (Employment and Occupation) Convention, 1958 (C111), and the Equal Remuneration Convention, 1951 (C100). Moldova participates in the Stability Pact countries of South-Eastern Europe, within the initiative "Employment policy reviews for Stability Pact countries of South-Eastern Europe". By diversification of national policies to improve the labour market, Moldova has demonstrated the ability to adopt the National Employment Strategy for 2007-2015, which shows the need to harmonise national policy with the European Employment Strategy Revised, recommendations of the Council of Europe and the International Labour Organisation. Despite these optimistic factors, the labour market in Moldova is very complex and is determined by socio-demographic factors, such as an aging labour force, migration of the labour force and brain drain, and economic factors such as economic growth, inflation and unemployment, which influence the functional status of the labour market. The structure of the labour market needs to be improved by the optimised policies of sustainability in organisational and institutional mechanisms.

The Vocational Education and Training sector remains underdeveloped. According to the European Training Fund, various projects have been undertaken on vocational and educational training by donor countries.⁷¹ Recognition of prior learning is an almost unknown concept in the Republic of Moldova. The national legislation currently allows for accreditation of Vocational Education and Training (VET) and continuing professional learning

(CPL). NEA is situated among these types of institutions, an organisation which also has the right to provide education facilities for job seekers based on occupational standards. NEA organise free-of-charge courses of vocational training (qualification, requalification and perfection). This way the jobseekers are given the possibility to obtain some theoretical and practical knowledge, specific for a profession, in this way increasing their chances to be employed. At the same time, in order to train and to support the jobseekers, the training courses are organised for the creation of the individual enterprises or the initiation of some business activity.

During the years 2006-2010 NEA organised a series of active measures aiming at increasing employment work, including among young people, such as: unemployment fund loans, encouraging labour mobility, encouraging employers to hire graduates of educational institutions, whose studies were funded by state-paid public works, etc.

Along with NEA activities, there is a need to mention that since 2008 the Representative Office of Winrock International in Moldova helps in empowering underprivileged young people, mainly from rural areas, to improve the confidence and livelihoods and develop their communities by providing access to information, life-altering training, mentoring and financial support.

However, economic participation of the population and job placement is declining, the situation has become pessimistic for the coming years. Involvement of the working population, especially youth, in entrepreneurship is equally pessimistic. Entrepreneurial activity in Moldova is almost non-existent because the population has no confidence in the banking structures. Unemployment benefits and allowances are very small and insufficient for existence if we make a comparison with the minimum

⁷¹ Cristina Mihes and others, *A Comparative Overview of Informal Employment in Albania, Bosnia and Herzegovina, Moldova and Montenegro* (Budapest: International Labour Organisation, 2011), p.19

consumption basket (1,100 lei or 70 euro, without utility costs, which are on average about three times more per month in the winter season).

Macroeconomic Evaluations

In 2009 Moldova saw two electoral campaigns and the country ran a deficit of 6.3% of GDP. As a consequence of economic crisis and political instability in the country, the government reduced the deficit to 2.5% of GDP. The economy continues to depend greatly on remittances sent from Moldovans working abroad. Gross domestic product in 2010 was a nominal value of 71.8 billion lei, according to current market prices, it has been growing in real terms by 6.9% compared to 2009 or with 64.8% as compared with 2000.⁷² GDP contracted by 6.5% in 2009, in sharp contrast to the 7.2% GDP growth in 2008.⁷³ (In January-June 2011 the gross domestic product was a nominal value of 36,628 million (Moldavian lei), current market prices, which

exceeded the previous year period in real terms by 7.5%.

However, the external shocks such as the global financial and economic crisis were followed in 2009 by falling of remittances by over 30% and FDI inflows. The negative economic trends of the crisis have affected the budget revenues, which dropped by 6.9% during January-August 2009, causing an unprecedented budget deficit amounting to over MDL 2.5 billion. Industrial production declined by around 22% in 2009 compared to 2008. However, industrial production recorded a growth of 107.0% in 2010 and of 111.6% in the first six months of 2011. In first half of 2011 the amount of taxes on products increased by 10.5% compared with the same period of previous year, contributing to the GDP growth with only 1.8%.

Looking at the production volume from the contribution of economic activities the analysis reveals some increases for sectors such as agriculture, the manufacturing industry, and transport and communications. (table 6 and chart 8).

⁷² National Bureau of Statistics of the Republic of Moldova, Social and economic situation of the Republic of Moldova in 2010, Chisinau 2011.

⁷³ European Commission. Progress Report Republic of Moldova, *Implementation of the European Neighbourhood Policy in 2009*, Brussels, 12/05/2010, SEC(2010) 523, http://ec.europa.eu/world/enp/pdf/progress2010/sec10_523_en.pdf.

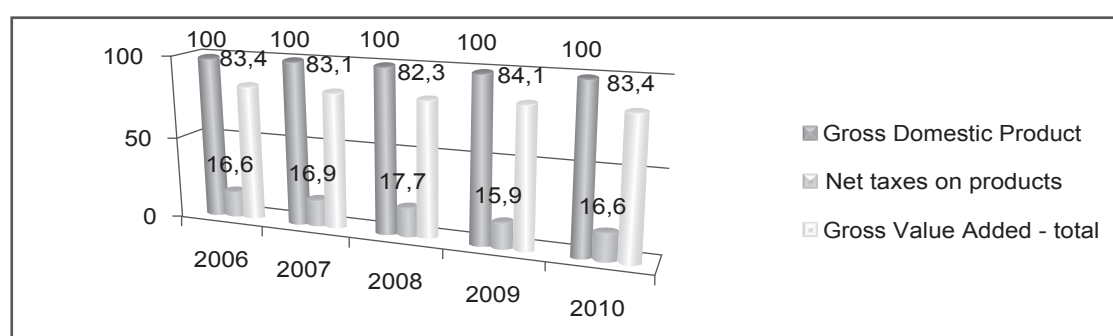
Table 6. The contribution of economic activities to the formation of the production volume

	2006	2007	2008	2009	2010
A Agriculture, hunting and forestry	14.3	10.9	11.68	10.61	13.37
B Fishing, pisciculture	0.03	0.03	0.03	0.04	0.03
C Mining and quarrying	0.49	0.46	0.47	0.4	0.37
D The manufacturing industry	25.18	23.25	21.97	21.12	21.43
E Electricity and heat, gas and water supply	2.46	2.71	2.94	3.46	3.44
F Construction	9.97	11.88	11.93	8.34	7.75
G Wholesale and retail trade	9.93	10.61	10.86	11.82	11.65
H Hotels and restaurants	1.15	1.21	1.39	1.47	1.45
I Transport and communications	14.04	14.38	14.06	13.71	13.26
J Financial intermediation	3.26	5.41	5.39	6.15	5.7
K70 Real estate activities	2.28	3.01	4.1	4.77	4.55
K71 Renting of machinery and equipment without operator and of personal and household goods	0.05	0.05	0.04	0.03	0.02
K72 Computers and related activities	0.68	0.78	0.79	0.81	0.81
K73 Research and development	0.29	0.33	0.35	0.33	0.29
K74 Other business activities	3.22	2.15	2.02	2.16	2.07
L Public administration	3.51	3.31	3.13	3.76	3.02
M Education	3.82	3.63	3.66	4.75	4.61
N Health and social work	2.84	2.98	2.94	3.58	3.4
O90 Sewage and refuse disposal, sanitation and similar activities	0.25	0.39	0.34	0.41	0.42
O91 Activities of membership organisations n.e.c.	0.7	0.66	0.61	0.71	0.82
O92 Recreational, cultural and sporting activities	1.24	1.43	1.01	1.12	1.08
O93 Other service activities	0.21	0.31	0.21	0.32	0.35
P Services provided by employees of private households	0.1	0.11	0.1	0.12	0.11

Source: National Bureau of Statistics

Also, service sector contribution to the gross domestic product declined from 63.9% in 2009 to 60.2% in 2010.

Chart 8. The contribution of economic activities to the formation of Gross Domestic Product



Source: National Bureau of Statistics

2.7.4 Passive Labour Market Policies

Passive measures of social protection of the insured unemployed persons are regulated by the Law concerning the employment and the social protection of job-seekers No. 102-XV from 13 March 2003 with further modifications and supplements (Art. 29). In order for the unemployed person to receive the unemployment benefit the solicitant must satisfy all the eligibility conditions: they must

- be an unemployed person according to Art.2 of the Law;
- be attributed to the category of the beneficiary of the unemployment benefit;
- be registered at the territorial agency of his place of residence;
- have worked and have a period of payment of dues to the state budget of social insurances of at least 6 months from last 24 calendar months before the registration date;
- not have taxable incomes according to the law.

An unemployed person is considered a person, who fulfils the following conditions:

- a) *is aged between 16 years and the pension age, stipulated by law;*
- b) *is able, according to the health situation and physical and mental capacities, to work;*
- c) *does not have a job and is not carrying out any activity in order to obtain income;*
- d) *is looking actively for a job and may start working;*
- e) *does not study at any institution with daily attendance;*
- f) *is registered at the territorial employment agency of his place of residence.*

According to requirements of NEA, there are established categories of the beneficiaries and the size of the unemployment benefits. (Table 7)

Also, strengthening Moldova's capacity to manage labour mobility within the country, attention is drawn to the need to intensify the national employment. Therefore, stimulation of labour mobility provides for those unemployed registered at territorial NEA agencies two types of allowances:

- unemployment allowance for transport, to the amount of average salary for the previous year, for persons who are employed with an individual labour contract at a distance of 30 km from the town where they reside (in 2007 the size of allowance was 1,695 lei);
- unemployment allowance for accommodation, to the amount of three average monthly wages for the previous year, for persons who are employed with an individual labour contract in another city and, therefore, change their residence (in 2007 the size of allowance was 5,085 lei).

According to the law, all registered unemployed people, with the exception of first labour market entrants and those who have not contributed for at least six months over the previous twenty-four months, are eligible for unemployment benefit. Some categories of jobseekers, in addition, are eligible to unemployment insurance cash transfers. Passive labour market programmes administration will be integrated into that of active measures, and the amount of cash transfers re-assessed according to the duration of unemployment and individual characteristics of the eligible beneficiary⁷⁴.

⁷⁴ National Employment Agency, *Social and economic situation of the Republic of Moldova in 2010. A Strategy for Change* (Chisinau 2009).

Table 7. Categories of the beneficiaries and the amount of the unemployment benefits

Unemployment benefit is established dependent on the circumstances of stopping the work activity of the person:	No. article (according to L.C.)	Amount of the unemployment benefit in % of the medium salary in economy (2,748 lei for 2009)
a) Death of the employer (physical person), announcement by the court of his death or disappearance	82 (b)	50% - 1,374.0 lei
b) withdrawal by the competent authorities of the activity license of the enterprise	82 (d)	40% - 1099.2 lei
c) Expiration of the term of the individual contract for undetermined duration – from the date stipulated in the contract, with the exception of the cases, when the work relations continue and the parties have not asked for its cessation	82 (f)	40%
d) Finishing of the work stipulated by the individual contract, signed for the period of accomplishing of specific work	82 (g)	40%
e) Finishing of the season, in the case of an individual contract for the accomplishing of the seasonal work	82 (h)	40%
f) Force majeure, confirmed in a due way, which excludes the continuation of the working relations	82 (i)	40%
g) Liquidation of the enterprise or finishing of the activity of the employer (physical person)	86 (b)	50%
h) Reduction of the number of the personnel	86 (c)	50%
i) Statement of the fact that the employee does not correspond to the function because of health conditions, according to a medical certificate	86 (d)	40%
j) Statement of the fact that the employee does not correspond to the function because of insufficient qualification, confirmed by the decision of the commission	86 (e)	40%
k) Changing of the owner of the enterprise (concerning the head of enterprise, his deputies, or the chief-accountant)	86 (f)	40%
l) Restitution at the work place, according to the juridical decision, of the person, who fulfilled in the past the respective work, if the removal or transfer of the employee to another job is not possible	86 (t)	40%
m) Refusal of the employee to be transferred to another job for health reasons, according to a medical certificate	86 (x)	40%
n) Refusal of the employee to be transferred to another locality in connection with the transfer of the enterprise to this locality	86 (y)	40%
o) The persons have resigned, looked actively for a job, have been registered at the agency as unemployed persons at least 3 months and because of the lack of corresponding jobs, they could not be employed	85	30%- 824.4 lei
p) The persons have stopped working, refusing the license for the business activity or on the basis of the patent		30%
q) The persons stopped working abroad in conditions of previous signing of an individual contract of the state social insurances		30%

2.7.5 Conclusions

The economy of Moldova differs in terms of its economic basis, labour market restructuring and future opportunities of employability. Problems of the labour market are determined by a range of factors influencing each other, such as the poor economic development of the country, low investment in training, education and productive experience, superficial control of vocational training institutions, poverty, youth unemployment, low wages, etc., which in turn generate an extreme configuration of the labour market, which is primarily determined by the labour force migration, population aging and depopulation of rural areas.

This analysis is a perspective focusing on the period 2006-2010. The relevance of this analysis consistently came out from the content analysis of various aspects of labour market policies, migration, population aging, and youth. The paper comprehensively describes the landscape of the labour market in the period of these years in Moldova, identifying its main facts, configuration and trends. Something new is affecting the labour market in Moldova as well other countries in the South-eastern Europe. This is a depopulation of rural areas of the country as a result of lack of job opportunities which increases the process of urbanisation in the state and all leads to a big gap between rural and urban employability. Urban employability is also not so rich: unemployed males and females from rural areas are less competitive or not competitive in either urban or rural areas, and they prefer working or looking for work abroad. Rural youth is looking to urban areas for employment and moves to cities for short and long term employment. Young people with qualifications face the risk of being in long unemployment as their job requirements are higher than those of people without qualifications. The exponential increase in the growing challenges related to

providing the information to youth about migration and employment opportunities abroad from those who have turned or migrated abroad, make the youth more flexible and distant from the domestic labour market. Also, the rural-urban linkages for growth, employment, and poverty reduction are very poor and there are no advantages in increasing them, due the lack of governance dialogue between the local and central public authorities and the lack of the principle of subsidiarity.

The analysis of the situation on the labour market in the Republic of Moldova shows a decrease in the global employability index, and a rise in the number of working people of 45 years or older, which means that the labour force will age continuously. In conditions of high rate of labour migration, the index of aging labour force will be acute.

The employment rates by sex at total population shows that women have the lowest employment rate in recent years, but women still remain the most vulnerable on the labour market, due to the lack of job opportunities and due to inequality on the labour market regarding women's employability. There are differences in pay between men and women. These discrepancies can be explained by several factors. Lower wages among women are explained by maternity leave and child care.

Wage differentials also influence women's motivation to obtain qualifications and the fact that they can pursue education, but most of them, after graduation, look for a job abroad.

A large number of people with disabilities do not have jobs, which creates difficulties in finding sources of revenue for maintenance and daily mobility needs, including medical care. Most employers prefer to employ no people with disabilities, having a wrong perception about, and underestimation of, their intellectual capacity and skills. Persons with disabilities remain out of the labour market, instead of at least a part time job which can

offer them a certain financial independence and potential social integration.

After the data analysis of all subdivisions, it seems to be fair to conclude that the current situation of the labour market is correlated with macro-economic and demographic trends.

2.7.6 Recommendations

The focus on the labour market has increased in the last ten years, because of migration trends of population, which is seen as an unsafe situation. In order to address the issues presented above, there are some recommendations regarding the improvement of the labour market segments. As was noted in this paper, the employment rate in Moldova has decreased almost constantly in recent years, this trend greatly affecting the structure of the labour market. The causes are both social-demographic and as well social-political. Therefore, to cover all in one tendency, the central issue must be focused on the vocational education and training reform, linked to labour market trends. This is because one of the most vulnerable issues is the lack of compatibility between the academic programmes and the real economic trends.

The government must recover the insurance of vocational education and training, especially for adults and youth, helping them to integrate into the labour market. Government implications should focus on diversification and differentiation in vocational education and training, and higher education. People are not willing to work for a low level of remuneration, though many, including returning migrants, would be willing to open their own small business. That is why one of the most important things is multiple qualifications, ensuring diversification of the qualification profile. It is necessary to organise a diversification of an adult training system, for example, to help the returning migrants to

recognise their prior learning and to integrate them into the labour market.

Therefore, government programmes are necessary to ensure youth involvement in entrepreneurship. These programmes should be focused not only on theoretical and rational perspectives of the labour market trends, but also on in-depth training in matters of trade, informal sector activity (no shadow economy), and be prepared to take a reasonable degree of risk. Among young people there must be not only graduates, but primarily artisans, farmers, and people without vocational training, who want to make a business and need training, guidance and consultation.

Youth entrepreneurship can be encouraged through a variety of means, including special programmes that facilitate access to credits for the long term and to internships within the leading enterprises of the country. These policies should be monitored by the government. Many young people do not invest their money in a family business, because they do not have trust in the funding of bank institutions. Therefore, they have little chance of starting their own business, unless the special governmental credit programmes are set up for them.

Along with these proposals, further steps are needed. A strategic approach needs to be adopted in order to accomplish the tasks and follow the trends of the labour market. Currently there are a number of labour policy projects that are designed to monitor migration processes and training people on the labour market. However, we must recognise that these trends are outdated and need a long-term systemic approach to ensure the sustainability of the labour market. For example, a systemic approach should be constructive and focused on women's employment (especially rural women's employment) and to equal wages between men and women. A key obstacle to equal pay is maternity leave, which is now paid for both genders equally, in

accordance with legislation since 2010. However, further differentiation is seen in salaries.

Youth unemployment levels are rising quite fast because of the lack of work experience and partially because of instability in the labour market. In the short term, a key policy priority is to provide adequate support to youth at the risk of losing contact with the labour market, especially for those who have not yet acquired a stable position on the labour market. Also, a priority for education authorities is to offer a recognised and valued qualification to youth in order not to encourage them to be drop-outs and make them competitive in the labour market.

Along with these priorities, it is also necessary to engage partnerships between local employers with local public authorities, in order to assure arrangements to increase the employability, especially of youth, women and persons with disabilities. Women are interested in a range of job opportunities and most of them, due to maternity leave, face a lack of work experience and miss the opportunity to gain qualifications. In this order, the establishment of partnerships at local level should assure better employability of vulnerable groups. These partnerships, for example, like job creation partnerships, should be designed to support projects of civil society or the business sector, which will provide work experience for youth, women and persons with disabilities. The local and regional projects must be implemented by these partnerships in order to help the local civil society,

businesses or firms to create local or regional jobs and to explore the local human capital.

2.7.7 Scenarios

The economic crisis in the country, as well as the global financial crisis, which persist, will affect the labour market situation also in 2011-2012. Main indicators of occupational records further decreased in 2010, and the situation in 2011 shows no sign of improvement. The economic crisis in the country led to a significant increase in registered unemployment in 2010. The registered unemployment rate will maintain high - especially among the young (15-24 years) the unemployment rate will be high (as in 2011 about 15.3 %) and as well in the 15-29 age group (in 2011 it recorded a value of about 11.0%). Considerable changes on the labour market will occur only after the recovery of the economy. Stronger job growth will be not possible in the real economy, and only to some extent possible in the business sector. The percentage of persons who have been unemployed for the very long term (24 months and more) will not be able to decrease, due to the lack of job opportunities and rigidity of the labour market. A possible improvement of the situation on the labour market supply and demand at the end of 2011 is not expected. A particular concern will be technological changes to the structure of the labour market and the implications for future labour demand in the near future.

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2.8 The Spectrum of Employment Policies and their Impact on the Labour Market in Montenegro

Vojin Golubovic

Abstract

The constantly negative situation on the Montenegrin labour market has improved over recent years. The labour market in Montenegro is affected by a wide range of governmental actions, in the fields not only of employment policy, but also of education, social welfare, business regulation, taxation, etc. Therefore, one of the goals of Montenegro in implementing the entire set of labour legislation is to ensure that employment impacts are fully taken into account in the formulation of policy in these other fields. Numerous policies addressing particular aspects and promotion of better functioning of the labour market are on-going or in preparation. However, there is still a lot of room for improvement. Montenegro needs to improve the functioning of the labour market, allowing for more flexibility combined with employment security. Currently, the Montenegrin labour market is fragmented and segmented in terms of the high regional disparities, gender inequality and mismatch between labour supply and labour demand. Also, it should be emphasised that the number of long term unemployed persons is at a relatively high level. This suggests that more efforts should be made at all levels, in order to overcome such a situation.

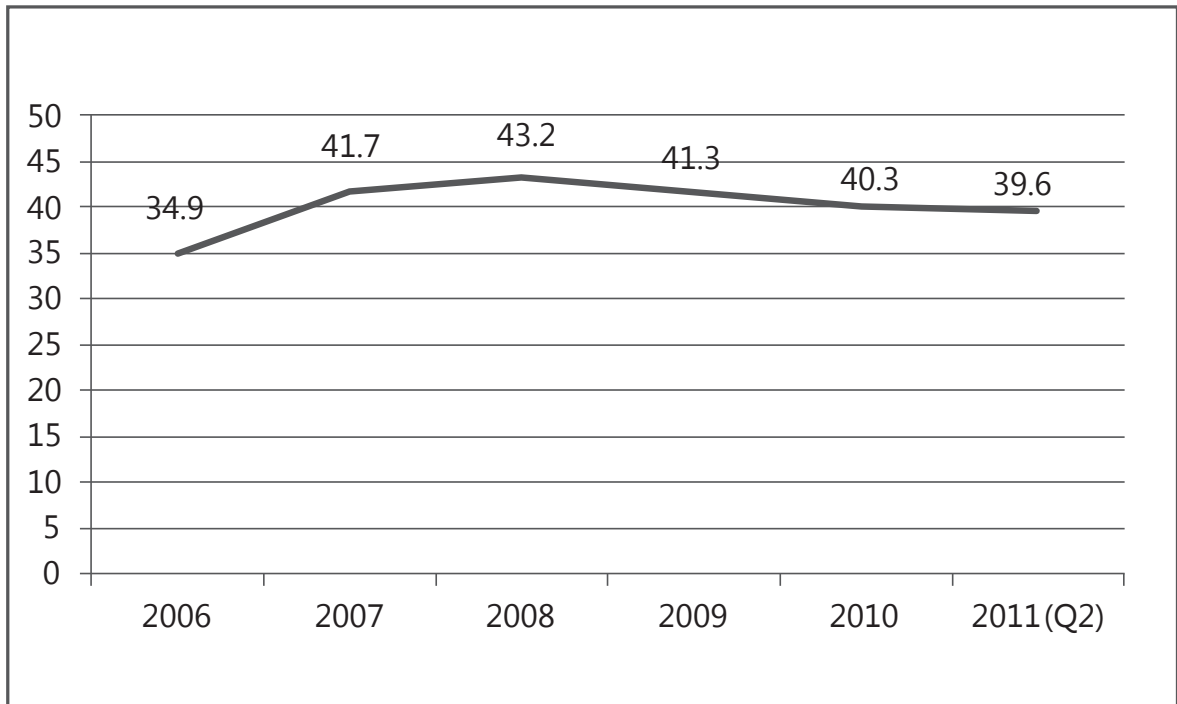
2.8.1 Labour Market Situation

In 2006, Montenegro became an independent state and the post-independence period was marked by a high GDP growth rate, driven mostly by a high inflow of FDI, an increase in services sector activities such as tourism and tourism-related activities and the real-estate sector. GDP real growth rate in 2006 was at the level of 8.6%, in 2007 it reached the level of 10.7%, while in 2008 amounted to 6.9%. Positive trends in the economy have influenced the labour market in the same way since Montenegro started developing modern and sophisticated labour market programmes and institutions. In Montenegro, conditions for the movement of labour and access to the labour market have been improving. Despite the progress achieved on the Montenegrin labour market over the last several years (especially in terms of the falling unemployment rate), there are still several serious deficiencies. Although the labour market of Montenegro has undergone large shifts during the transition, struc-

tural problems have remained, such as high inactivity rates, low female labour market participation, high incidence of long-term unemployment, the mismatch between labour supply and labour demand, territorial imbalances and slow increases in productivity. All of these could be attributed to several factors – job losses due to restructuring, entry barriers to the labour market, etc. Also, the global economic crisis is spilling over its impact onto Montenegro. Consequently, this has a negative effect on the movement on the labour market.

Employment rates

In the few past years the employment rate in Montenegro has grown at a fast pace. According to the LFS, the highest employment rate was recorded in 2008 (43.2%) and the lowest level in 2006 (34.5%). In 2010 it stood at 40.3%, while the Labour Force Survey conducted in the second quarter of 2011 showed the employment rate continued its decreasing trend and it amounted 39.6%.

Graph 1: Employment rate in Montenegro

Source: MONSTAT, LFS 2006-2011(Q2)

The employment to population ratio is lower in Montenegro than in most economies, where the value of this ratio is between 50% and 70%. In Montenegro, with the employment rate for the persons aged 15 and above being at the level of 39.6%⁷⁵ and 46.6% for the working age population (15-64), this ratio is somewhat lower than the usual ratio (between 50% and 70%), but it is not considered low. This indicator provides information on the ability of an economy to create jobs and it is considerable if its value is under 35%.

The employment rates regarding gender are not equal. The employment rate for women is lower than the average employment rate. In 2010, the female employment rate amounted to 33.8%, while the total employment rate was at the level of 41.3%. Despite the slight increase in the female employment rate, it is still much lower than the male employment rate, which amounted to 47.1% in 2010. A similar situation was reg-

istered in 2011 (Q2) when the female employment rate amounted to 33.0%, while the male employment rate amounted to 46.6%.

Unemployment rates

In Montenegro, data on unemployment are subject to different methodologies employed by MONSTAT and the Employment Agency of Montenegro (EAM). MONSTAT uses ILO methodology and the EAM takes into account unemployed persons registered within the EAM.

According to the EAM, *unemployment rate* (a percentage of the unemployed registered within the EAM in the total number of active population (15 +)) has been constantly and quite rapidly decreasing: from its maximum of 32.8% in 2000, to 10.6% in 2008. After 2008, the unemployment rate increased as a consequence of the crisis, and it amounted to 12.1% in 2010. During the second half of 2009, the unemployment rate started to increase, for the first time in eight years.

⁷⁵ Last available data (the second quarter of 2011)

According to the MONSTAT, the unemployment rate was 29.6% in 2006 and it decreased and reached its minimum in 2008, when it amounted to 16.8%. In 2009 it recorded growth at the level of 19.1% and stayed at a similar level during 2010 and the first half of 2011.

Table 1: Unemployment rate in Montenegro during 2006-2011(Q2)

Year	2006	2007	2008	2009	2010	2011 (Q2)
EAM	15.4	11.9	10.6	10.7	12.1	11.2
MONSTAT (LFS)	29.6	19.4	16.8	19.1	18.9	19.1

Source: MONSTAT, EAM

Although MONSTAT and the EAM use different methodologies on the calculation of the unemployment rate in Montenegro, the trends of unemployment rates are the same.

Despite the fact that it has been falling over recent years, there is a substantial gender gap with respect to unemployment in Montenegro. Overall, the difference in unemployment rate among genders is also partly caused by lower activity rates among females (43% among females and 59% among males).

Table 2: Unemployment rates by gender during 2006-2011

Year	2006	2007	2008	2009	2010	2011(Q2)
Women unemployed	33,582	24,000	20,800	23,500	22,700	22,500
Female unemployment rate	30.1	20.9	17.9	20.4	20.6	21.0
Men unemployed	41,238	27,000	24,000	26,900	27,300	26,900
Male unemployment rate	29.1	18.1	15.9	18.0	18.9	19.1

Source: MONSTAT, LFS 2006-2011(Q2)

Sectoral changes

The sectoral changes in Montenegro during recent years are similar to those in other countries in transition, since the main change has been towards a service economy. Since the beginning of transition, the agricultural and industrial sectors have been declining, to the benefit of the service sector. Major industries that have a reduced workforce include agriculture (from 3.3% in 2001 to 1.7% in 2008⁷⁶, transport, storage and communications (from 10.1% in 2001 to 8.4% in 2010 and 7.5% in Q2-2011) and education (from 11.5% in

2001 to 6.3% in 2010 and 6.0% in Q2-2011). As far as the mining and manufacturing sector is concerned, from 2001, its share in total employment has decreased from the level of 27% to 11.2% in 2010 and 8.6% in Q2-2011. The public administration sector alone employs 9.5% of the employed workforce, which is higher than the level of the mining and manufacturing sector during Q2-2011.

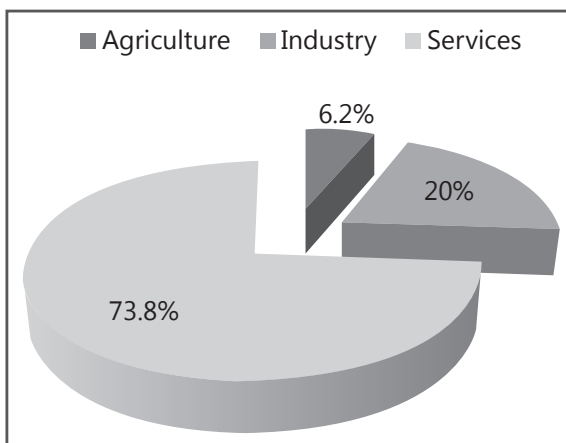
Conversely, employment in the services sector had a share of 60% in 2001 and it increased to 73.9% in 2010 and 75.4% in Q2-2011. This growth of employment in services is mainly a result of the development of tourism. Bearing in mind the fact that Montenegro has become a very attractive tourist destination, the number of employees in hotels and restaurants has been growing over the

⁷⁶ According to the LFS, there was an important increase with respect to the share of employment in agricultural activities in the overall employment in 2009 and 2010 compared with the entire previous period. Namely, in 2009 the share of employment in agricultural activities reached the level of 6.5%, while in 2010 it amounted 6.2%.

last decade. In 2001 the share of employees in this sector in the total employment was 5.7%, while in 2010 it reached the level of 8.5%. A similar improvement is recorded in sector of real estate activities. In 2001, the share of this sector was only 1%, while in 2010 it stood at the level of 3.7%.(there are no data for any period of 2011 yet). Additionally, the expansion of the financial sector has created jobs in the financial intermediation industry. Also, Montenegro is the country with the highest employment in a sector of whole-sale and retail trade. In 2001, the share of this sector in total employment was 8.9%, while at the end of 2010 it increased to the level of 22.5% (21.7% in Q2-2011).

According to the above explanation, it is obvious that the services sector dominates, and its share in total employment has increased over time. In 2010, less than 1/3 (around 26%) of those employed were still working out of service sector (agriculture: 6.2%, and industry: 20%), leaving the vast majority (73.8%) of the employed in the services sector. Geographically, most (48%) of the agricultural activity is concentrated in the north, whereas 90% of all employment in the coastal region is in services.

Graph 2: share of employment by sectors in total employment (2010)



Source: MONSTAT, LFS

Besides changes in employment by sectors, the employment structure by ownership has also changed. Due to the privatisation process, the share of employed in the public sector amounted to 60% in 2000, and was reduced to 42.7% in Q2-2011. On the other hand, thanks to the decline in employment in socially owned enterprises, employment in the private sector as a percentage of total employment has been going up, from 41% in 2000 to 57.3% in Q2-2011.

Adjustment patterns

The global crisis affected the labour market as well and there are necessary adjustments to the new situation. A slowdown of economic activity was noticed in the last quarter of 2008. In 2009 GDP decreased by 5.7%. The most significant decrease is recorded in following sectors: industry (-32.2%), construction (-21.8%) and trade (-8.9%). The decrease in these sectors was partially covered by tourism revenues that were at the level of the previous year, activation of the agricultural resources and production, as well as an increase in the FDIs, which in 2009 were at the record level of about €1 billion.

This situation required a certain adjustments of policies. Fiscal policy was focused on fiscal adjustments in the crises, which resulted in a budget deficit at the level of 2.3% of GDP. The decrease in budget revenues is partially caused by lower collection of taxes and contributions. Budget expenditures in 2009 were 7.13% lower than the planned expenditures. The highest share in total expenditures (around 30%) was accounted for by transfers for social protection, which recorded an increase of more than 11% compared with 2008. However, the highest increase (by almost 170%) was recorded in subsidies, which is the direct consequence of the state support in order to overwhelm the consequences of the economic crisis.

However, the formal labour market, which recorded a positive trend prior the crisis, did not suffer seriously in terms of overall employment (that registered growth prior to the crisis) and unemployment (which registered a decline prior to the crisis) because they remained at a similar level during 2009. In February 2009 the Montenegrin government decided to stop employment in public sectors in order to contribute to the envisaged budget saving during the crisis. Although this decision was made in early 2009, its effects were not evident during 2010, since employment in the public sector remained almost the same.

Despite positive trends in registered employment, there is a disturbing trend in registered unemployment, since during 2009 the amount of compensation for the unemployed, which all persons who have at least 6 months' work experience are entitled to, increased. Based on EAM data, the average number of persons receiving unemployment benefit amounted to around 9,500, while in 2009 it increased to 12,500, which represents the increase of more than 30%. During 2010 it remained at the same level.

Negative effects of the crises were noticed on the Montenegrin labour market at the end of 2009, and they became more visible during the last quarter of 2009 and during 2010. In 2009 industrial sub-sectors such as Aluminium Plant (KAP), Steel Factory, Bauxite Mine Niksic, and Coal mine Pljevlja, as a consequence of restructuring, started to record decreasing number of employees, which continued during 2010. The total number of employed persons in these companies amounted to 1288 (KAP), 1460 (Steel factory Niksic), 530 (Bauxite Mine Niksic) and 1500 (Coal Mine Pljevlja). The number of workers that should be laid off amounted 524 (KAP), 400 (Steel factory Niksic), 300 (Bauxite Mine Niksic) and 370 (Coal Mine Pljevlja). However, there are no exact data on the realization of such plan.

The overall unemployment rate increased to 12.1% in 2010 (according to the EAM), while the change in employment in first two quarters of 2011 followed the changes in economic activity: there is a noticeable decrease in employment in the industrial sector, while employment in agriculture is growing. Bearing in mind the number of people that are planned to be laid off in the future, it can be expected that the number of recipients of the unemployment benefits will be at a higher level during 2011. This will present a significant additional burden to the Montenegrin budget, which is already in deficit.

The recommendations of the International Labour Organisation (ILO) for a national policy to reduce unemployment and the impact of the global economic crisis on unemployment could be summarised as follows:

- Appropriate mix of active and passive labour market policies;
- Adjustment of transfers for social security and pensions, in order to avoid their devaluation;
- Support to enterprises, especially SMEs in overcoming the problems with liquidity and securing loans;
- Public investment in infrastructure;
- Support and help for vulnerable groups;
- Restructuring of companies in a socially responsible manner;
- Strengthening of institutions that provide services for the unemployed;
- Incentives and investments in energy efficient technologies and "green jobs";
- Development of social dialogue.

If we consider the recommendations made by the ILO, it could be concluded that their implementation has already started in Montenegro. Namely, during the last couple of years the level of taxes and contributions has declined. In 2009 the total amount of

taxes and contributions was at the level of 63% of net wage, which makes Montenegro more business-friendly and removes the barrier which forced most of the employers in Montenegro to report a minimal wage in order to pay minimal taxes and contributions.

However, the level of contributions as percentage of gross wage increased during 2010 in order to maintain sustainable revenues of the Pension Fund and Health Insurance Fund, as well as to reduce the amount of transfers to these funds from the state budget, which has already entered the area of deficit.

In addition, the problems in the manufacturing industry sector should be resolved by restructuring and supporting the major companies in the sector. Also, The government of Montenegro is trying to invest in infrastructure and stimulate employment. The government of Montenegro is in the process of negotiation regarding the building of a motorway through Montenegro. The start of the construction of the motorway would represent a big incentive for the Montenegrin labour market because there is an estimate that one to two thousand workers with various qualifications would be employed on that project.

Regarding “green jobs”, the projects of encouraging and financing of energy efficiency programs are already in a phase of implementation. There is an encouraging attitude towards an increasing importance of green technology. The Centre for Vocation Education has already established several educational programmes supporting energy matters, which deliver the knowledge applicable to new sources of energy, because the representative of this institution emphasised an increasing demand for occupations in the area of high voltage electricity and new sources of energy.

During the times of crisis Montenegro managed to improve the balance between labour market needs and education system. There is a lot of room for further improve-

ment in this area, since the current education system still does not completely match the labour market needs. Certain qualification profiles are still deficient on the market. There is evidence that tourism and the construction industry are sectors that suffer most from the lack of a qualified labour force supply even during the crisis, because there was a large number of foreign workers in these sectors in previous years. Also, agriculture, as well as the wood processing sector, are recognised by the EAM as sectors with a lack of certain qualification profiles. Therefore, the EAM plans to begin the implementation of special programmes in order to improve the supply of the labour force on the Montenegrin labour market. There are also programmes created in order to stimulate employment in the northern region, while special incentive measures are designed for employment of persons who cannot easily find a job.

Although there are efforts to neutralise the effects of the crisis on the labour market, local level measures cannot solve all the problems. Therefore, the recovery of the economy, i.e. continuation in the trend of growth, and consequently the development of the labour market, will partially depend on solution of the problems on a global level. Developments in future will largely depend on developments in the global economy, which will have an impact on developments in the economy of Montenegro (the tourist season, the way to resolve the crisis in the manufacturing industry sector, privatisation in the energy sector, etc.). The solution of the problems related to the liquidity of the Montenegrin companies, finalisation of restructuring of a number of large economic systems, maintenance of budget policy in accordance with the economic reality, stabilisation of the banking system and further attraction of foreign direct investments should significantly define the trends on the labour market.

Gender Topics

Over recent years there have also been noticeable changes with respect to the employment structure by gender. Out of the total number of employees, on average 58% are males, while 42% are females. Although, over the last six years, the rate of growth of female participation in overall employment was 1.3% annually, their share in overall em-

ployment is lower than that of males. Despite having a similar level of education, females have lower participation in overall employment compared with males. This is partially due to the fact that women are in a poorer position to start their own business, since they lack enough collateral (land, real estate, etc.) in order to get bank loans, due to the customs in Montenegro according to which all family inheritance goes to male children.

Table 3: Number of employed persons by gender (2006-2011(Q2))

	2006	2007	2008	2009	2010	2011 (Q2)
TOTAL	178,364	212,700	221,900	213,600	202,300	198,600
Male	100,250	121,700	126,800	122,200	116,200	113,800
Female	78,113	91,000	95,100	91,400	86,100	84,800

Source: LFS, MONSTAT

Regarding employment rates by gender, it is noticeable that employment rates are unequal and a gender gap in employment exists. The employment rate by gender follows the same pattern as the total employment rate, as well as the activity rate, since the female employment rate is lower than the average employment rate. In 2010 the women's employment rate amounted to 33.8%, while the total employment rate was at the level of 40.3%. Although experiencing growth over the observed period (e.g. women's employment rate in 2005 was only 27.6%), the female employment rate is much lower than the male employment rate. The male employment rate has increased from the level of 42.4% in 2005 to 47.1% in 2010.

Since 2000, both male and female unemployment has been decreasing. However, the conclusion is that for both genders, the risk of being unemployed decreases with age. In 2007 compared with previous years, there was an important reduction in the number of both unemployed women and men. The trend was more pronounced with respect to males. Also, there was a trend of reduction

in the female share in total unemployment, which can be explained by new jobs opening in some sectors employing mainly women (trade, tourism, etc.). This is additionally supported by the fact that women are more present in training programs organised by the EAM, all with a view to getting new skills and knowledge that might assist them in finding a job. According to both sources (EAM and MONSTAT) since 2005, there are constantly more males unemployed (in absolute terms) than females. However, EAM data show that there are more males unemployed than females as of 2006, which is different from the MONSTAT data. This may suggest that women are more likely to register as unemployed in order to get health insurance.

The difference in unemployment rate among genders is also partly caused by lower activity rates among females (42.6% among females and 58.1% among males in 2010). This indicates that there is still a gender gap with respect to unemployment in Montenegro.

The effects of the crisis on the labour market became more visible in the last quarter of 2009, when the unemployment rate for the

male population amounted to 19.2% or 4.2 percentage points higher than in the same period of 2008. The unemployment rate for the female population in the fourth quarter of 2009 amounted to 21.8%, which represents an increase of 3.6 percentage points in comparison with the same period of 2008. Similar trends continued in 2010 when, according to the LFS, women made up 45.3% of the total unemployed persons, while the unemployment rate for the female and male population amounted to 20.6% and 18.9%, respectively. During the first two quarters of 2011 the unemployment rates amounted to 21% for women and 19.1% for men.

Demographic Topics

The results of the Census of 2011 show that total population number in Montenegro has

slightly decreased since the Census of 2003. In 2003 and 2011 the total population was 620,145 and 620,029, respectively. More concerning is the presence of an aging population. This is a problem that Montenegro has faced during previous decades. The share of the elderly in the total population was significantly increased. The number of people aged 65 or older, amounted to 50,603 in 1991 while it increased to 85,535 in 2011 with an average annual growth rate of 2.66%. On the other hand, the share of the young population (age group 0-14) registered an average annual decrease of 1.53% (from 155,458 in 1991 to 116,453 in 2011), which is a consequence of low fertility rates. The working age population (15-64) registered a slight increase, but the expectation is that the number of people who belong to this age group will also reduce in the future, due to the low current fertility rates.

Table 4: The age structure of population in Montenegro

Census Year	1953	1961	1971	1981	1991	2003	2011
Age group	Number of citizens						
Total	419,855	471,612	526,937	581,972	608,815	628,295	620,029
0-14	149,144	171,658	169,139	160,546	155,458	131,883	116,453
15-64	239,781	266,514	317,417	373,406	402,754	421,256	422,041
65+	30,930	33,440	40,417	48,020	50,603	75,156	81,535
80+	5,972	7,088	8,322	9,366	11,215	10,087	15,530
Age group	Share in total population (in %)						
0-14	35.5	36.4	32.1	27.6	25.5	21.0	18.78
15-64	57.1	56.5	60.2	64.2	66.2	67.0	68.07
65+	7.4	7.1	7.7	8.3	8.3	12.0	13.15
80+	1.4	1.5	1.6	1.6	1.8	1.6	2.50
Census year	1953	1961	1971	1981	1991	2003	2011
Aging index⁷⁷	21	19	24	30	33	57	70

Source: Census 1953, 1961, 1971, 1981, 1991, 2003, 2011, MONSTAT

Also, in 2011, females accounted for around 51% of the total population, and this percentage has not changed significantly since the last Census.

With the small overall increase during the period 2003–2011, the share of the age group between 15 and 64 (a base for an *economically active population*) in total the Montenegrin population is almost the same every year, around 67%. The trend of growth is the high-

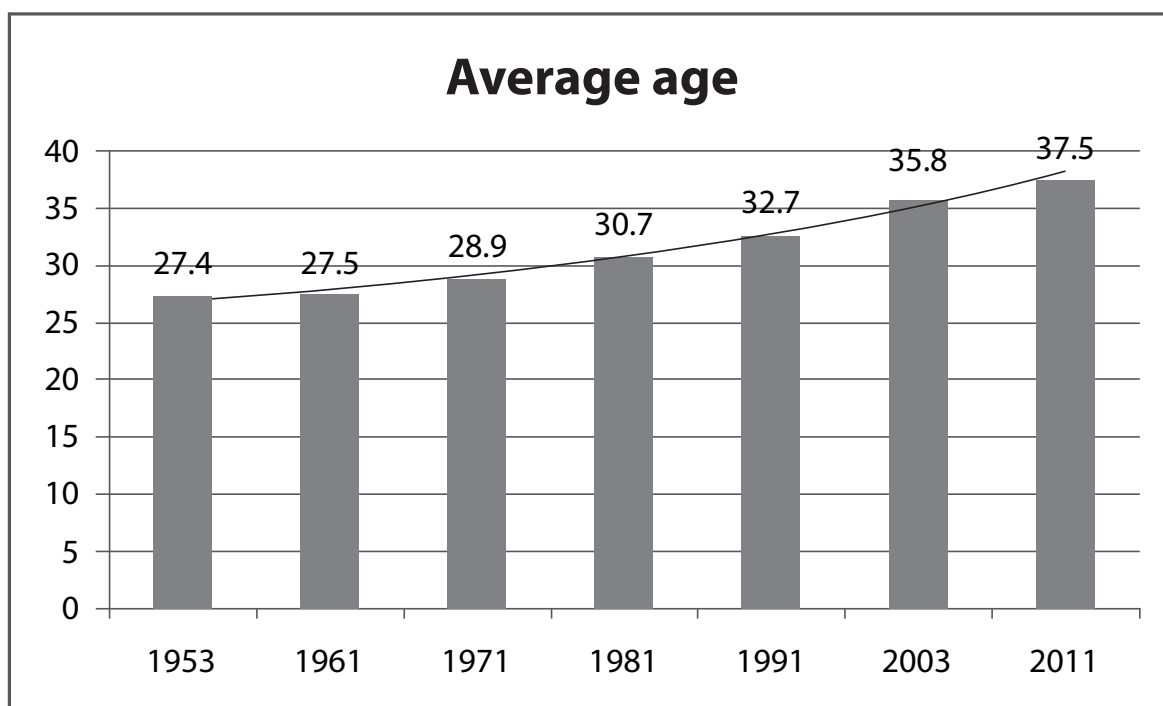
⁷⁷ The aging index is calculated as the number of persons 65 years old or over per hundred persons under age 15.

est amongst the population aged 45-54 years. There is a decrease in the youngest age group, 15-24, throughout the period, which is probably caused by decreased fertility. In addition to this, the sharpest decrease in the observed period is recorded in the age group 25-34. Finally, the age group 35-44 recorded a certain constant increase. All these demographic pat-

terns lead to the conclusion that Montenegro is a country with an aging population.

The average age of the Montenegrin population has been increasing over the years and in 2003 and 2011 the average age was at the level of 35.8 and 37.5 respectively. This indicator shows that the population of Montenegro is older from year to year.

Graph 3: Average age of population in Montenegro



Source: MONSTAT

Bearing in mind the above-stated movements in the Montenegrin demographic system, it is likely that demographic developments will continue to exert pressure on the labour market in the years to come, due to the increased duration of life of Montenegrin citizens and the falling fertility rate.

Youth unemployment

The age structure of the unemployed has also changed, but it is still unfavourable. The unemployment rate of *youth* (15-24) in 2006 was 59.5%, and was reduced to the level of 37.3% in Q2-2011 (around 57% of

young men and 43% of young women). The problem of the youth unemployment rate is dominant in the overall unemployment structure, since they have the highest unemployment rate of all age groups. Youth are a part of population with an unemployment rate significantly higher than the average. The very high unemployment rate of youth is a consequence of their inability to find a job and not dominantly of their poor education attendance. Young people are, therefore, increasingly finding themselves either inactive or pushed towards the informal labour market, or forced to accept jobs with poorer working conditions. The positive thing in

having the highest unemployment rate for youth lays in the fact that they are the most capable of fitting into the modern requirements and trends of the labour market. This

is the reason why younger persons find it easier and faster to get employment than elderly people. Due to this, their share in the labour supply structure is declining.

Table 5: Unemployment rate by age (2006-2011(Q2))

	15 +	15-24	25-34	25-54	35-54	55-64	15-64
2006	29.6	59.5	35.3	24.9	20.7	20.6	29.8
	15 +	15-24	25-49	50-64	55-64	15-64	
2007	19.4	38.3	18.8	10.1	n.a.	19.4	
2008	16.8	30.5	16.4	10.5	9.6	16.9	
2009	19.1	35.6	18.9	12	10.1	19.2	
2010	19.7	45.5	19.1	10.9	9.7	19.8	
2011(Q2)	19.9	37.3	20.6	12.1	13.0	20.1	

Source: MONSTAT (LFS)

One of the reasons that spurred reduction of youth unemployment might be an increase in demand for occupations that required III and IV education level degree. (share in total demand is approximately 50%). This increase was recorded mostly in trade, catering and tourism. These are sectors that mainly employ young people. An additional reason can be related to the growth of fixed-term contracts that are more acceptable to younger people.

In order to fight youth unemployment, Montenegro adopted the *National Youth Action Plan (NYAP 2007-2012)*. It is a document which includes active labour market measures for young jobseekers, such as training courses, referral to seasonal jobs for graduates, public work for young persons with disabilities, traineeships with wage subsidies for graduates, self-employment schemes for Roma, Ashkali and Egyptian (RAE) population and the "Job for You" programme in the disadvantaged northern region. Also, it should be noted that it is difficult to attract young, highly qualified labour due to the relatively low wage levels in the public sector.

2.8.2 Employment Policies and Labour Market Institutions

Fiscal and Tax Policy

Since the beginning of 2003, the government has attempted to reduce the cost of labour price certain cutbacks in fiscal burden on wages, thereby struggling to motivate employers to register currently employed workers or to employ new ones. Also, with the reduction in the overall fiscal burden, the motivation for employment of workers outside the formal economy was reduced. Therefore, a possible change in favourable fiscal policy would have a negative impact on business in the country.

Over the last five years, in the field of direct taxes, a proportional system of taxation has been introduced. The aim of this was the creation of a simple, transparent and efficient tax system, with one rate set below 10%. Since 2005, the rate on corporate income tax (CIT) is 9%. The rate on personal income tax (PIT) in 2007 amounted to 15%, in 2009 12%, and in 2010 it was reduced to the level of 9%. This was done in order to eliminate incentives of the tax payers to manipulate figures with a transfer of income from one tax base to the other, since this rate is the same for personal and corporate income.

According to the *Law⁷⁸ on Contributions for Obligatory Social Insurance*, employers in Montenegro are obliged to pay taxes and obligatory social insurance on behalf of the company and on behalf of the employee for the pension and disability insurance, health

insurance, as well as insurance in the case of unemployment. The basis for calculation and payment of the contributions in the case of unemployment is the wage, or compensation for the labour provided, in accordance to the *Law, Collective Agreement* and *Labour Contract*.

Table 6: Taxes and contributions on employment in Montenegro

Taxes and contributions	2008	2009	2010
Personal income tax (flat) (tax free income €70 per month)	15%	12%	9%
Contributions (employee)	19%	17.5%	24.0
Contribution for pension and disability insurance	12%	12%	15
Contribution for health insurance	6.5%	5.0%	8.5
Contribution for insurance against unemployment	0.5%	0.5%	0.5
Contribution (employer)	15.0	14.5	9.8
Contribution for pension and disability insurance	9	8.5	5.5
Contribution for health insurance	5.5	5.5	3.8
Contribution for insurance against unemployment	0.5	0.5	0.5%
Chamber of Commerce contribution	0.32	0.32	0.32
Surtax on personal income tax	13-15% PIT	13-15% PIT	13-15% PIT

Source: Ministry of Finance

Those who have the right to the insurance in the case of unemployment are employed persons, persons with temporary and part-time jobs, appointed and elected persons who receive a salary related to the function, Montenegrin citizens who are employed with foreign or international organisations and institutions on the territory of Montenegro, as well as with the embassies and consulates or foreign legal or physical persons, foreign citizens and persons without citizenship who are employed with the foreign legal and physical persons on the territory of Montenegro, and foreign citizens and persons without citizenship em-

ployed with the international organizations and institutions and the foreign embassies and consulates on the territory of Montenegro.

The level of taxes and contributions has declined since 2003, when overall taxes and contributions on wages were at the level of more than 100%. The level of overall taxes and contributions has been declining over the years and currently overall taxes and contributions are at the level of 63% of net wage, or the overall tax burden is at the level between 40% and 50% of the gross wage which makes Montenegro more business-friendly and also removes the barrier due to which most employers in Montenegro were reporting a minimal wage in order to pay minimal taxes and

⁷⁸ Official Gazette of the Republic of Montenegro, No. 13/07

contributions. However, due to the global economic crisis, the government of Montenegro decided to increase pensions and health contributions in order to make the social system more sustainable, which might also be an incentive for employees not to declare work. However, the expectation is that this increase is temporary, and the level of contributions will continue to decline in the future. On the other hand, the PIT remained the same (9%).

The Montenegrin government annually adopts a *Decree on Tax Incentives for Hiring Certain Categories of Unemployed Persons*, in order to encourage employment of persons who are considered difficult to employ, including persons with disabilities, with a duration of one year. This *Decree* prescribes that employers who hire persons with disabilities are exempted from paying more than 50% of fiscal liabilities (taxes and contributions for mandatory social insurance) to the employee's earnings. Implementation of this *Decree* in the period 2006-2009 gave positive results. Namely, the number of persons hard to employ (redundant, long-term unemployed, etc.) was reduced from about 12,000 in 2006 to less than 6,000 in 2010. Also, through a programme of seasonal and public work during 2009 and 2010 a significant number of people were employed.

Education Policy

A high quality of education system is very important for individuals and society, since such importance could be visible through providing the possibility for everyone to develop through knowledge, skills and competences which will enable the citizens to learn and have personal development, satisfaction and advancement throughout their life, as well as to ensure their own participation in the labour market, in addition to easier employability and the prevention of social exclusion.

The government of Montenegro recognised the importance of the creation of a knowledge-based society and adopted different strategic and documents which are in line with the Lisbon Strategy.

Adoption of the Law on National Vocational Qualifications⁷⁹ significantly advances and facilitates the procedure of obtaining vocational qualifications, that is, crucial skills that are necessary for the labour market and which will have an impact on the planning of human resources and improvement of the qualification structure of the population. Besides this law, the following are the most important from the aspect of education and labour development in Montenegro:

- The General Law on Education⁸⁰,
- The Law on Vocational Education⁸¹
- The Law on Higher Education⁸²
- The Law on Adult Education⁸³,
- The Law on Recognition of Educational Qualifications⁸⁴
- The Law on Science and Research Activity⁸⁵.

Although there are efforts to improve the linkage between the education system and labour market needs, the fact is recognised that a lot of knowledge does not fit the modern requirements of the labour market and that the only way of bridging this gap is the promotion of a "learning society" and that is inclusion of adults in the process of life-long learning. There is no special strategy for life-long learning, but as the importance of life-long learning and the importance of accept-

⁷⁹ Official Gazette of the Republic of Montenegro, No. 80/08

⁸⁰ Official Gazette of the Republic of Montenegro 64/02, 31/05 and 49/07

⁸¹ Official Gazette of the Republic of Montenegro, No. 64/02, No. 49/07

⁸² Official Gazette of the Republic of Montenegro, No. 64/02, No. 60/03

⁸³ Official Gazette of the Republic of Montenegro 64/02 and 49/07

⁸⁴ Official Gazette of the Republic of Montenegro, No. 4/08

⁸⁵ Official Gazette of the Republic of Montenegro, No. 80/10

ing the idea of „learning society“ are recognised, the amended the Law on Adult Education sets out the principle of lifelong learning as one of the fundamental principles, while one of the stated goals is related to the increase in the level of the functional literacy of citizens. The goals listed in the Law on Adult Education, the Strategy for Adult Education, the Plan for Adult Education and other important documents involve continuous learning and improvement, and thereby accept the concept of lifelong learning.

The Montenegrin authorities adopted the National Employment Strategy for the period 2007-2010, which is focused on increase in productivity and work quality, which assumes fixing workforce quality and tweaking the education system to better suit labour market needs. The new National Strategy for employment and human resource development for the period after 2011 will be prepared. Also, the 'Strategy for Life-Long Entrepreneurship Learning', and The White Book – Human Resources Development in Montenegro until 2017 are adopted. However, it seems that there is still a lack of awareness at the local level about the importance of linking education and work, which refers to the interdependence of education policy, labour markets and the strategic development of local authorities.

Also, the Strategy for Adult Education (2005-2015) was adopted. Based on this strategy, the Ministry of Education and Science prepares a plan of adult education for a period of four years. The Council for Adult Education in March 2010 adopted a new four-year Plan for Adult Education referring to the period 2010-2014, which enables further development of activities for each year and each municipality separately, and thus, realisation of the activities prescribed by the Strategy for Adult Education and Plan for Adult Education. The Strategy for Adult Education defined six priority objectives that are

similar to objectives of other documents, and those objectives are related to: increasing the level of knowledge and skills of employees in order to achieve faster economic growth; increasing the level of knowledge and skills of the unemployed in order to move them faster into employment; increasing the level of social inclusion through the adult education; reaching the values of a democratic society through the education of adults; improving environmental protection through the adult education; and the use of other forms of education for personal development.

Regarding institutions at a national level, there is evident cooperation between institutions of the education system, the EAM and other social partners who are directly connected with the labour market. For instance the Centre for Vocation Education in cooperation with the EAM and other institutions related to labour market and education identified some areas where there is an increasing demand for occupations (such as the energy sector) and this institution established several educational programmes supporting energy matters which deliver the knowledge applicable to new sources of energy. Also, experts from relevant education and labour market institutions conducted a survey about skill demands in wood processing, civil engineering and tourism. The EAM analyses the information regarding training needs in order to design and organise efficient training that is labour market oriented. However, there is still a lack of research, especially in adult education related to: the education needs, the education supply, the level of functional literacy, the level of development of key competencies and the compliance between education opportunities and labour market needs. More efforts should be made in order to better match supply and demand, which assumes an effective lifelong learning system and efficient active labour market measures.

The indicator which could provide a clearer picture about a real focus on the goals related to the improvement of system and the importance of education is that of spending on education.⁸⁶ In nominal val-

ues, annual public expenditure on education has increased. It amounted to €112 million in 2007, €136 million in 2008 €139 million in 2009, 133 € million in 2010, and 132 € million in 2011.

Table 7: Annual public expenditure on education as % of total budget expenditures

Year	2006	2007	2008	2009	2010	2011
Public expenditures on education (all levels)	12.7	14.4	9.8	9	9.1	9.4

Source: *Final Account of Budget Law (2005, 2006, 2007, 2008, 2009, 2010), The Law on Budget for 2011*

Although, there is constant spending on education over recent years (as % of total budget expenditures), the efficiency of spend-

ing is not known, since there is no direct relationship between performance of students and total expenditures.

SWOT-Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Favourable long-term fiscal and tax policy of Montenegrin government (reduction of fiscal burden, reduction of taxes) • Adopted legislative aligned with the EU legislation • Cooperation between institutions at all levels (ministries, schools, Centre for Vocational Education, Employment Agency of Montenegro) • Cooperation between social partners, employers and individuals in creating and preparing programs for training, and professional development • Most institutions in charge of policy implementation are well-equipped (especially schools) • Joint participation of education institutions and labour institutions in creating and implementing an educational policy that suits labour market needs. 	<ul style="list-style-type: none"> • Although educational system in Montenegro has experienced significant improvements over the recent period, there is still no specific strategy on teacher recruitment and retention. • The number of qualified personnel who will design and implement policies is still limited and insufficient. • There is still a lack of awareness at the local level about the importance of linking education and work which refers to the interdependence of the education policy, labour markets and the strategic development of local authorities. • The lack of monitoring of policies at the local level; • There is insufficient research related to education needs, the education supply, the level of functional literacy, the level of development of key competencies, etc.

⁸⁶ Since 2008 the Ministry of Finance added all the extra-budgetary funds into the State Treasury System, based on the *Law on Budget* (Official Gazette of the Republic of Montenegro, 40/01, 44/01, 71/05. So a comparison is not possible between years before and after 2008.

Opportunities	Threats
<ul style="list-style-type: none"> • Favourable fiscal and tax policy might be a chance for new business investors and consequently new jobs; • Adopted new legislation might have a positive impact on better linkage between labour supply and demand, i.e. better connection between the education system and the labour market; • The availability of different EU funds could improve the education policy, which is labour market oriented 	<ul style="list-style-type: none"> • Possible change of favourable fiscal policy would have a negative impact on business in the country. • If the crisis continues there is a possible reduction of the state budget, and consequently, the reduction of amounts for education policies that are designed in order to better connect the educational system and labour market needs; • A possible threat could be the non-existence of adequate monitoring of allocation of sources for these policies • Possible insufficient trust of employers in the institutions that are in charge of implementing the policies

2.8.3 Active and Passive Labour Market Policies

According to the Law on Employment and Realisation of Rights from Insurance against Unemployment⁸⁷, Active Labour Market Policies (ALMPs) are plans, programmes and measures oriented towards an increase in employment, i.e. the reduction of unemployment. They are defined within the National Strategy for Employment and Development of Human Resources, which establishes strategic priorities and goals of the employment policy for a period of 4 years or more.

Recent policies / current situation

In Montenegro, the EAM is in charge of the implementation of all the active employment policies. National Strategy for Employment and Human Resources Development 2007-2011 defines a lot of measures which are related to ALMPs. The main goal of the Strategy in that field is involvement of at least 50% of long-term unemployed persons in active measures in the form of training, re-training,

work experience, a job or other employability measure, combined with on-going job search assistance. All ALMP measures are aimed at increasing employment and counteracting unemployment, increasing productivity and quality of work and strengthening social cohesion.

Measures of ALMPs are defined by the Law of Employment and Realisation of Rights from Insurance against Unemployment and these are the following:

- Informing on possibilities and conditions for employment;
- Intermediation in employment;
- Professional orientation;
- Financing wages of aspirants;
- Support to self-employment;
- Subsidies for employment;
- Education and training of adults;
- Professional rehabilitation of the hard to employ;
- Public Work;
- Scholarships;
- Other measures oriented towards the increase in employment, that is, reduction of unemployment.

⁸⁷ Official Gazette of the Republic of Montenegro, No. 14/10

Table 8: Budget for ALMPs during 2008-2010

Year	2006	2007	2008	2009	2010
Active measures	15.337.855,99	10.270.141,35	12.219.020,75	12.876.399,72	10.806.682,83
Passive measures	5.446.445,13	5.682.891,48	8.850.687,80	12.637.972,43	15.179.917,00
Total budget	30.631.962,27	27.394.175,75	30.902.305,51	31.974.728,86	31.906.605,76

Source: EAM

The EAM is involved in financing (partly and fully) employment of aspirants. This policy affected the increasing employment of people who finished formal education. According to the Law of Employment, the EAM partly refunds costs for contributions of employees if that employer employs persons for a certain period. This measure has positive effects on the decrease in unemployment.

Public works is local and national programme for employment which is designed for opening new jobs and developing work abilities of unemployed persons. Public works are intended to assist people in gaining a labour market attachment. They can increase employability if combined with training. However, the difficulty of this measure is a low capacity for labour market integration. Workers may get trapped in a spiral of temporary public-works programmes.

The EAM conducts programs for development of SMEs and in this way it impacts an increase in employment. Since 1999, the EAM has realised a Programme of self-employment and in 2008 this programme was modified as the Innovated Programme of Self-Employment. Through credit support, the EAM stimulates the development of SMEs and additional engagement of the work force.

With the aim of increasing employment, over the last few years the EAM has realised activities in educational fields for unemployed persons, part time employed persons, employed persons for whose occupation there is

no market demand: males younger than 50 years of age and females younger than 45 years of age. These education programmes include: vocational education, re-education and specialisation. The main advantage of this labour measure is that it works better with broader technical and employability skills that are in demand and includes work experience as well as other employment services. But on the other hand, this measure may produce temporary, rather than sustainable solutions and, if not well targeted, may benefit those who are already "better off". Training alone may not be sufficient to increase employment prospects.

One of the programmes of ALMPs that the EAM is continually realising is seasonal employment. Seasonal employment is mainly oriented towards the tourism sector, but in the recent period the share of the other sectors, such as agriculture, retail, construction, forestry, etc., has increased.

Employment counselling and job-search assistance are more cost effective means of tackling frictional unemployment. This is due to the fact that individuals are provided with information on education and training, trends in the labour market and job openings.

The National Strategy for employment and human resource development 2007-2011 and the National Action Plan for employment for the period 2010-2011 have defined measures and activities for the restraining of informal economy. These measures are related

to decreasing the costs of doing business, decreasing administrative and tax burdens and raising the state's control function in order to eliminate the informal economy.

The number of unemployed persons that have participated in programmes based on active employment measures over the last few years, according to the EAM amounted to around 40% of the total unemployed and it was at a relatively high level. However, the results of these measures are not fully known, since there are no adequate evaluation data. There should be more efficient active measures that are related to those who find it particularly difficult to get jobs. The characteristic of the Montenegrin labour market is the constant high share of long-term unemployment. According to the LFS, this share amounted to 80.3% in Q2-2011. Since the share of long-term unemployed persons is still high, these results suggest that active labour market measures should be more successful. The groups most affected are vulnerable groups, such as persons with disabilities, women, elderly persons, etc., who are the most frequent long-term unemployed.

Different projects and programmes are conducted by the EAM. These programmes are related to active labour market measures that focus on support for self-employment and encouraging entrepreneurship through credit, public works, training courses, financing internship; preparation for employment; seasonal employment; measures for persons with disabilities and other vulnerable groups, etc. However, the results were not at a satisfactory level, since the programmes were characterised by a low level of participation of persons with disabilities – only around 2% of participants were persons with disabilities during 2009 and 2010. This indicates that there should be more specific active labour market measures that are directly focused on disabled persons, and these projects and measures should provide a higher rate of their participation.

More active labour market measures are needed in the area of gender equality and the position of women on the Montenegrin labour market, since it is obvious that there is still inequality between men and women in terms of employment, unemployment and activity. Some projects are started in order to enhance female entrepreneurship. At the end of 2009, the Union of Employers started a project for female entrepreneurs with 30 planned start-ups.

Also, the public work "Sunny Workshop" was conducted in 2010 by the EAM in cooperation with social partners. This measure showed positive results, since around 70 persons from different municipalities signed an employment contract for a definite period of one month to one year, which created a positive impact on the labour market and society. However, this is not enough, since there is still a huge number of disabled workers (almost 2000) and almost 1000 people of various categories, registered by all features on the way to employment.

The project "We are All Equal" was not successful, since it did not provide the expected results (it did not have a significant effect on the employment of disabled persons). Although representatives of some local governments were included in these activities, their continuous participation and involvement is needed, which would result in a large number of projects with the aim of supporting the employment of persons with disabilities.

Currently, there are a lot of programmes and measures that are related to the young unemployed persons, since this part of the population is greatly affected by unemployment (especially those with higher education). Therefore, the Montenegrin government is conducting a National Youth Action Plan referring to the period 2007-2012. This plan assumes different active labour market measures and programmes for young unemployed persons that are seeking for a job,

such as training courses for different positions and purposes, different public works and seasonal jobs for young persons with disabilities, wage subsidies for aspirants etc. However, the effects and overall impact of these measures are not known, since there is a lack of data needed for evaluation.

Passive measures are related to financial compensation for unemployment. Relative to the average wage, unemployment benefit is quite low⁸⁸, and thus cannot be treated as an important supporting measure for those who lose their job. According to the EAM the number of recipients is above 12,000. Primarily, transition processes have created redundant and wide coverage of unemployed people. According to the new Law on Employment the time of receiving compensation is reduced. This change was introduced in order to narrow the list of recipients. On the other hand qualitative restructuring of compensation would lead to the stimulation of employment.

Mediation

The implementation of active labour market policies and measures was innovative and timely. There is a similar expectation regarding future measures. Informing on possibilities and conditions for employment is an innovative measure since, besides providing information on the reported vacancies and conditions for employment that existed previously, it assumes that information is provided related to opportunities for professional orientation, conditions, manner and procedure for acquisition of national professional qualifications, employment mediation, etc.

An individual plan for employment is a novelty in intermediation in employment. This plan defines the activities of the unemployed

in finding work and involvement in active employment policy measures. Due to the professional orientation, the unemployed persons get the possibility to objectively analyse, plan and accomplish their professional career, and to adjust their needs and abilities to the needs and demands of the labour market.

This plan was developed by the EAM for the needs of unemployed persons and it serves as an agreement about the planned activities of that person, while searching for employment and participating in programmes of active employment policy. If EAM estimates that a person has such barriers to employment that, before they are eliminated, this person is not eligible for mediation, it is necessary to make a plan of professional-medical rehabilitation. Adoption of the Law on Professional Rehabilitation and Employment of Disabled Persons⁸⁹ and Rulebook in the field of vocational rehabilitation of persons with disabilities defines the procedures for developing vocational rehabilitation plans for each unemployed person who, in the process, is found to be in need of involvement in programmes of vocational rehabilitation for work integration. In this regard, on 1 November 2009, the EAM initiated the execution of the pilot project "Implementation of the Law on Professional Rehabilitation and Employment of Disabled Persons", for a period of 3 months. The first part of the project focused on training of the necessary and deficient personnel to work in vocational rehabilitation programmes of persons who have more difficulty in finding employment: doctors in occupational medicine, psychologists, occupational therapists, social workers and occupational technicians. The second part of the project is the vocational rehabilitation process: determining the remaining work and other capacities of unemployed persons with barriers to employ-

⁸⁸ The unemployment benefit amount is set at 65% of the national basic minimum wage, and currently amounts to €37.5 (net terms), plus paid social security contributions.

⁸⁹ Official Gazette of the Republic of Montenegro, No. 49/08

ment – rehabilitants and their participation in brief vocational rehabilitation programmes. Also, on national television there is an on-going programme entitled “*Make a Move*” at a given time every Sunday and all print media publish supplements, at least once a week, in which citizens are regularly informed about the activities of the EAM, especially regarding activities of persons with disabilities. Also, consultants for working with employers in all employment offices on the territory of Montenegro continuously inform employers about incentive measures in the case of employing a person with disabilities.

Training

So far it has turned out that labour market training programmes which respond to the new labour market requirements have been more successful than measures such as employment subsidies. This particularly refers to the training programmes and measures related to the employment of persons with disabilities. Namely, although a Decree on tax incentives for hiring certain categories of unemployed persons was adopted in 2009, in order to encourage employment of persons who are considered difficult to employ, including persons with disabilities, this measure did not show the expected results. Also, despite the fact that employers who want to employ a person with a disability have special benefits and subsidies (subsidies for the wage of the persons with disability, financial resources for the harmonised work space for a person with a disability, etc.), during 2009 employers did not require any co-funding for adjusting workplaces for persons with disabilities. On the other hand, training programmes for specific occupations were organised in 2009 and 2010 in collaboration with more than 50 performers for around 1000 unemployed persons. Out of this number, training to work on

specific workplace included almost half which was based on the request of the employers. These data show that training programmes that respond to the labour market needs are more efficient than mere subsidies for employment. Female participation in self-employment programmes organised by the EAM is more than 40%, and their share in active employment policy programmes amounted to almost 60% during 2009 and 2010. Although this indicates that women tend to more readily accept training programmes provided by the EAM, generally, there are not enough gender specific active labour market measures.

Also, through the IPA 2008 project “Labour Market Reform and Workforce Development” EAM finances 16 local employment projects in four northern municipalities (Bijelo Polje, Pljevlja, Mojkovac and Berane). These projects assume training for deficitary occupations in these municipalities. The expected results are more than 400 trained participants and at least 30% of them employed after training. This training will be finished in November 2011.

Public employment service (EAM)

The EAM is a legal person with rights, duties and responsibilities that are based within the Constitution of Montenegro, Law on Employment and Professional Rehabilitation of Disabled Persons and the Statute of the EAM. The EAM performs a public service to meet needs in the field of employment on the territory of Montenegro. The EAM is pursuing its own influence on the labour market in Montenegro via implementation of the Law on Employment and Professional Rehabilitation of Disabled Persons, other labour regulations, regulations of the health, pension and disabled persons’ insurance, etc. The main roles of the EAM are:

- Agency between employers and employees;
- Preparation for employment;
- Research, planning and development;
- Ensuring insurance rights in the case of unemployment;
- Offering professional information and guidance, organised in specialised centres – CIPS (which are still not operational in all municipalities)
- Statistics (statistics of unemployment and employment; statistics of the need for employees; certificates related to employment that are in charge of the EAM, data processing for preparation of statistical and other reports, information and analysis, etc.)

The main role of the EAM is to intermediate in the employment process. This role is performed through:

- Monitoring of actual and expected needs for the certain employees profiles, technical and other labour requirements;
- Notifying employers about possibilities of providing necessary employees;
- Notifying unemployed persons and others about conditions and possibilities for employment and realisation of other rights based on unemployment;
- Participation in the creation and delivery of passive and active labour market policy measures;
- Management agency in announcing and fulfilling free job positions, participation in candidate selection, and preparation for employment.

During previous years the EAM has launched several projects and programmes towards implementation of ALMPs, such as: financing internship; public works; encouraging entrepreneurship through credit; preparation for employment; seasonal employment; employment of persons with disabilities, etc.

the main goal of these projects was increasing employment, reducing unemployment and improving the quality of jobs with fixed objectives within each priority and determination of measures within each goal in the active plan with fixed activities.

Within the ALMPs, stimulation of employment through financing qualification improvement of postulants with different levels of education is of great importance. From 2004 to 2010, more than 10,000 postulants were employed. In the same period, the EAM participated in financing wages for about 7,000 postulants. Also, regarding seasonal employment, the EAM through this programme included around one quarter of unemployed persons from the evidence during 2009 and 2010. Within the programmes that are realised with the goal of readjusting the labour force and companies to the labour market, programmes related to the training and courses aimed at the skill improvement of potential employees are of great importance. In period from 2003 to 2010, about 25,000 persons attended these programmes.

In the period 2003-2010 the EAM, in cooperation with the relevant ministries, municipalities, public institutions and NGOs, employed more than 5,000 persons in public work. These public works, organised in order to help the implementation of different social, cultural, communal, ecological, etc. programmes, are based on unprofitable, public valuable work. These programmes influence the creation of new working places and improve working potentiality, level of knowledge and skills, etc.

Since 1999, the EAM has realised a programme of self-employment, related to the continuous stimulation of employment and entrepreneurship in Montenegro. This programme has provided credits with conditions better than those of the market. In September 2008, the Employment Office started with the realisation of the Innovated Programme for Continuous

Employment and Entrepreneurship Stimulation in Montenegro, which presents continuity with an on-going Programme of Self-Employment. The main goal of the Innovated Programme was to provide credits in special conditions, related for realisation of quality, economically tenable business ideas. All this with a view to stimulating entrepreneurship development, with special attention paid to less developed municipalities, and the creation of new, efficient small business that would create work places for a long time.

So far, more than 10,000 credits have been approved, with a total value of more than €50 million. More than 16,000 persons have been employed through this kind of help. A very important service that the EAM provides is related to the employment of foreigners. Namely, in order to stimulate employment, the Montenegrin government adopted a Decree on Employment of Foreigners. Since the Decree implementation, about 160,000 foreigners have been employed. In addition to this, since 2009, the Law on Employment and Work of Foreigners has become effective⁹⁰.

Regarding the strengthening of institutional capacities, the EAM plans to establish an efficient monitoring and evaluation system. Also, several bodies have been established to monitor and supervise the implementation of education, training and active labour market policies, such as the Social Council, the Council for Implementation of the Strategy for Human Resource Development in the Tourism Sector of Montenegro and the Steering Committee of the Employment Agency of Montenegro. This Committee is in charge of suggesting measures of employment and scholarship policy, conducting employment programmes and plans and undertaking other HRD activities. It is constituted on a tripartite basis.

In addition, the IPA 2008 project „Labour Market Reform and Workforce Development“ serves in the improvement of the

capacity of the Ministry of Labour and Social Welfare, labour market institutions, improvement of analytical functions and evaluation of employment policy for human resources, and within this, active employment measures.

2.8.4 Horizontal Principles

Economic and social councils

The tripartite social dialogue is in Montenegro is perceived to be regulated properly with the adoption of the *Law on Social Council*.⁹¹ The Montenegrin Constitution stipulates that the employees' social position is harmonised in the Social Council. By establishing the Social Council, Montenegro institutionalised social dialogue at a national level. In this way, the Social Council is recognised as a form of institutional framework in which social dialogue among employees, employers and the government is conducted.

The Social Council was established as a tripartite body by the Decision on the Education of the Economic and Social Council adopted in 2001, and by the Decision on the Amendment of the Decision on the Education of the Economic and Social Council from December 2006⁹², which was passed by the Montenegrin government, as an instrument for the

⁹¹ Official Gazette of the Republic of Montenegro, No. 16/07 (This Law has been aligned with the following: CO 144 on Tripartite Consultations (International Labour Standards from 1976); Recommendation No 152 on Tripartite Consultations (ILO activities from 1976); Recommendation No 133 on negotiations (at the level of economy and national level from 1960); CO 98 on the Right to Organise and Collective bargaining; CO 87 on trade union freedoms and trade union rights protection from 1948.)

⁹² This Decision is a tripartite agreement with the Trade Union and Union of Employers stating that, by the end of the year, the Social Council will have to work on the amendment of the *Labour Law* and the *Laws on Collective Bargaining and Peaceful Resolution of Labour Disputes*, as well as the law on the Council itself. The Decision also prescribed a progressive increase in the minimum wage to €55 by the end of 2007, the revision of some non-monetary elements of remuneration and the decrease in the tax wedge – including a reduction of the tax on salary devolved to local authorities – to around 50% of the net salary. Finally, it committed the government to providing the means for the functioning of the Social Council.

⁹⁰ Official Gazette of the Republic of Montenegro, No. 22/08

functioning and enhancement of social dialogue. These Decisions assigned an advisory role to the Social Council in matters of economic and social policy.

The mission and goal of the Social Council are the establishment and development of social dialogue on issues that are important for the realisation of economic and social status of employees and employers. The Social Council aims to contribute to the creation of the basic preconditions for an efficient social dialogue in Montenegro, on both national and local levels, for the improvement of democracy, for the fight against the grey economy, for the competitiveness of the economy and for its sustainable development, for the creation of a stable macroeconomic climate, for the enhancement of the consensus of the social partners on the fundamental economic and social policy, for long term goals and transferring to full social and economic development and EU integration. The Social Council also advocates the establishment of Social Councils at a local level. The logic behind such an initiative lies in the fact that Montenegro has a developed system of local self-governments (21) with very pronounced features of each of them in economic, demographic and other fields. Due to these reasons, there is a significant need to have a system of social dialogue at a local level, which will take into consideration the characteristics of every single municipality.

The Social Council consists of the trade union, employers and the government representatives. The Council has 33 members, out of which 11 are government representatives, 11 are employers' representatives and the remaining 11 are trade union representatives. They operate through the work of 7 sections: Production, the Research and Development Section; the Labour and Social Issues Section; the Society Transition Section; Agriculture, the Food Industry and Forestry Section; the

Economy and Finances Section; the Environment Section; and the Foreign Relations Section. SEC is financed by the national budget. SECs have also been set up in 12 municipalities. The model of Montenegrin Social Council is based on a European concept, according to which economic policy, employment policy and social policy are in interaction.

Since its establishment in 2002, it has not played a huge role in the design of economic and social policy. However, bearing in mind the fact that the Social Council is a new body in Montenegro, it is unrealistic to expect fulfilment of an entire set of goals in such a short period of time. Hence, in the coming period it is necessary to increase the active role of SEC in current employment issues in Montenegro, especially in the field of design of employment policies. The Council may finance independent studies, but its funds are very limited. On the positive side, many stakeholders during expert interviews have highlighted the fact that the Council makes huge efforts and in a manner of partnership strives to advance such interactive cooperation among all stakeholders. Additionally, in this context, it should be mentioned that, in the times of global crisis, there are many challenges ahead and that there is room for the further advancement of the social dialogue in Montenegro.

Equity

Horizontal equity requires that in similar circumstances all individuals are treated similarly. Unified rules and payments would provide horizontal equity. Whereas horizontal equity within the labour market would require workers in the same job to receive equal pay independent of performance. Therefore, an important issue is related to the wage setting in Montenegro and equity among different groups.

The higher increase in net wages is a consequence of the decrease in personal income

tax in 2009, when it was reduced from 15% to 9%, as well as the decrease in the rate of contributions for social and health insurance. This is related to all levels of salaries, with a tax free income of 70 Euros per month. The basic elements used to form the level of wages on a national level are named in the General Collective Agreement (GCA), concluded in January 2004. Actual relations are organised within sectors, branches and individual companies through negotiations between social partners (trade unions and employers). The GCA sets the national minimum wage, which serves as a benchmark for calculation of other wages according to the employee's education level. The current level of minimum wage is set to €55. Regulations concerning the minimum wage in Montenegro are slightly different from those in most European countries. The minimum wage differs depending on the education level of an employee. Basically, every wage coefficient represents an assessment of the labour value, relative to unqualified labour. The wage coefficient for unqualified (elementary school only) workers is 1 and means that their minimum wage is equal to the general (national) minimum wage (currently €55). Then, the same agreement also gives the set of coefficients this basic amount is to be multiplied by, depending on the education level of an employee. The minimum for each level of education is calculated by multiplying the national minimum wage by the corresponding wage coefficient. Workers with 6 months of education above the elementary level have the coefficient 1.2, which means that at the minimum they should be paid by 20% more. The highest coefficient (4.0) has been set for employees with PhD level.

This system has been inherited from the past. It represents an attempt to correlate wages with education, as in socialist times unqualified workers tended to earn more than workers with a university degree. The amount

of the minimum wage in the economy can be altered either by changing the basic value or by changing coefficients, both of them being part of the GCA. The minimum wage is binding for all companies in the economy. However, it influences most strongly those working in the public sector (public administration, education, public security, and health). After the four years in which the GCA has been implemented in Montenegro, a Task Force on Amendments to the GCA has been formed. At the current moment, their work is in progress. The fields of disagreement relate to the issue of the coefficient of the work complexity. The common opinion of all parties involved in the process is that the current level of wages has to be preserved.

The most important result of reconciliation of the GCA with the Labour Law is the introduction of the institute of minimum wage instead of a minimum price of labour in Montenegro, as well as the determination of its level. It is agreed that the minimum wage of an employee for standard working performance and full working time for an average of 176 hours a month cannot be lower than 30% of the average wage in Montenegro in the previous six months. The minimum wage should provide a minimum of social and material security of the lowest paid employees, especially in terms of disruptions in business, when it is not possible to exercise the right to fair remuneration. Therefore, in this way the most vulnerable groups of workers are protected and adequate incentives for the reduction of informal economy in employment and payment of taxes and contributions are put in place.

In addition, Montenegro makes efforts to provide equal opportunities for male and female on the labour market and higher involvement of persons with disabilities on the labour market. The legislative framework from the field of gender equality has been established by the entering into force of the

Law on Gender Equality.⁹³ This Law regulates the way of ensuring and exercising the right of gender equality, in line with international documents and general rules of international law, as well as the measures for eliminating gender discrimination and creating equal opportunities for the participation of men and women in all the fields of social life. The protection of persons with disability is regulated by: the Law on Professional Rehabilitation and Employment of Disabled Persons. In 2007 the government of Montenegro adopted the Strategy for Integration of Persons with Disabilities, for the period 2008-2016. The development of this strategy will hopefully provide a greater degree of horizontal equity in the treatment of all disabled people.

One of the crucial measures is also related to the improvement of conditions on the labour market for people with special needs, migrants and ethnic minorities⁹⁴. It is therefore necessary to provide additional assistance to groups who are discriminated against, mainly those with a low level of education, social benefit claimants and single parents. Employers should enable higher participation for disadvantaged groups when hiring workers.

Social Dialogue

The Labour Law guarantees freedom of association for every employee and sets the principles for the representation of the associations of employers and trade unions in the collective bargaining process and social dialogue. It specifies the parties to collective bargaining, the levels at which agreements may be concluded and the status and applicability of collective agreements.

Within the labour legislation reform, Montenegro has the strengthened social dialogue and tripartism as instruments of democracy, participation and the right to work, as well as the positive experience of the European Economic and Social Committee. Regardless of union membership, the GCA and the national level negotiations cover all workers in the economy, which is the same standard for branch level and company level. Negotiated provisions also cover non-members of unions. These agreements mainly deal with wages, leave periods, rights and obligations of workers and employers and conditions of work, including working-time arrangements. Currently, 15 sectoral agreements are in force. At enterprise level collective bargaining takes place mainly in large companies.

Trade unions are powerful in Montenegro. One of the means for mitigating the resistance of trade unions to the restructuring process and engaging in a constructive social dialogue is the recent establishment of the Labour Fund as well as continuation of investment in education and training. All these measures are contained within the National Action Plan for employment.

One of the main conclusions derived from the experts' interviews conducted on the issue of the social dialogue is that further European integration processes will significantly contribute to the strengthening of social dialogue in Montenegro. The Ministry of Labour and Social Welfare highlights already well-established continuous assistance of the ILO in the field of social dialogue and the fact that Montenegro is among the best countries in the region when it comes to the implementation of ILO standards. The result of such an effort is the quality of the social dialogue developed in Montenegro.

It should be mentioned that the common opinion of many persons interviewed for the purpose of this Study is that the institution-

⁹³ Official Gazette of the Republic of Montenegro, No. 46/07

⁹⁴ The Law on Minority Rights and Freedoms (the Official Gazette of the Republic of Montenegro, No 38/07) lays down more precisely the set of minority rights and the mechanisms for protection of those rights. The Law refers to keeping the minority national identity, namely, the defence from minority assimilation, as well as enabling efficient minority participation in public life.

al aspect of the model of social dialogue in Montenegro has been improved with the establishment of the Labour Fund and Agency for Peaceful Resolution of the Labour Disputes, since both of them are very important in regulation of the rights of employees.

2.8.5 Country Specific

Migration

According to MONSTAT data, around 55,000 or about 9% of Montenegrins live or work abroad.⁹⁵ However, these movements are logical, bearing in mind the poor economic conditions and the wars in the region during the nineties. Montenegro also received a large proportion of refugees and internally displaced persons, resulting from the conflicts in the region. In 2008 there were about 8,500 refugees from the Federation of Bosnia and Herzegovina and Croatia and 16,200 IDPs from Kosovo under UNSCR 1244/1999 living in the country.⁹⁶ Also, during the recent years, Montenegro has received seasonal migrants from neighbouring countries, such as Serbia, the Former Yugoslav Republic of Macedonia (FYROM), Federation of Bosnia and Herzegovina and Kosovo under UNSCR 1244/1999. They are mainly engaged as additional labour force during the tourist season in branches such as tourism and construction.

Regarding internal migrations, over the last 20 years these migrations have intensified from the northern part of the country to the capital, Podgorica, and the southern region. This means that almost all 11 northern municipalities have registered a reduction in the number of citizens, while the opposite has occurred in Podgorica and the coastal region. In 2010 the share of inactive population was highest in the

northern part of the country (45.3%), while in the southern region, and especially in Podgorica it is significantly lower, 41% and 33.7%, respectively. Podgorica is the capital and administrative centre of Montenegro with a growing number of citizens over the years. The southern region is also developed with increasing opportunities for quality life. On the other hand, the northern part of Montenegro is mainly oriented towards the industrial sector, (textile, leather, wood processing, etc.) with many closed factories that have pushed people to migrate to the more service-oriented towns in the central and southern regions. With the closing of these enterprises, the local workforce has been forced to seek a new way of financing its existence. Some of them have gone into agriculture, while a significant number have left the region by migrating to the central and southern parts of the country, thus changing the demographic picture of the country. All this reveals the fact that the labour market in the north of Montenegro is underdeveloped and that special attention has to be paid to its development. Due to the bad infrastructure in the north of Montenegro, agriculture activities have given unsatisfactory results. Over recent years, additional efforts have been made in order to assist the development of the north.

At the moment, in Montenegro around two thirds of the Montenegrin population lives in urban communities and the proportion of the urban population is registering an increasing trend. The situation is worsened by the fact that many schools in the rural parts of Montenegro are closed due to the low number of students. Naturally, these movements have put pressure upon labour markets in urban areas.

Additionally, the labour force in Montenegro lacks mobility, despite a relatively small distance between towns.⁹⁷ The trend of mo-

⁹⁵ Data from Census 2011 are not published yet.

⁹⁶ Source: Report in Montenegro from the refugees perspective, UNHCR, 2009

⁹⁷ LFS data speaks in favour of this finding. In 2010, over 90% were working in the same municipality where the household was located.

bility of the labour force is poor, due to the geographic obstacles, the mismatch between low wages and living costs and especially bad working conditions. The poor labour mobility (due to the small size of the country) refers to the situation where one individual works and lives in the same place and not to the trend of internal migrations that relates to the movement of permanent residence of one person from the place of birth/place of the previous residence, to another town. In other words, there are examples of unemployed persons in Montenegro that prefer to be unemployed rather than travel to another town for the purpose of a job. However, those who have internally migrated, once they have settled in another place, also remain there permanently or for the long term. During the course of the tourist season, mobility of labour force is somewhat higher towards the coast of the country, which, in turn, leads to increased overall employment. Due to all this, ways of addressing the low level of labour mobility must be examined and these municipalities have to be revived. In doing so, geographical constraints have to be mitigated, the development of infrastructure underpinned, new programmes created, and living and working conditions for the local population made much easier, all this with a view to keeping them from migrating to other parts of country.

2.8.6 Conclusions / Recommendations

By far the greatest problem of unemployment in Montenegro is the structural unemployment seen in the discrepancy between labour supply and demand with regard to certain jobs. There is a hyper production of human resources in certain fields of work, while, on the other hand, there is a lack of interest in the construction industry, agriculture, forestry, wood processing industry, etc., although there is a labour market demand for these professions

The problem of unemployment is additionally augmented by the structure of unemployed persons. Namely, with the drop in the number of unemployed, the share of the “hard to employ” is increasing. All of them are, over a longer period of time, in a poor social position.

Negative effects of the global crisis were noticed on the Montenegrin labour market with a delay in comparison with the rest of the economy. The first signs of negative trends were recorded at the end of 2009 (last quarter) and during 2010. In 2009 industrial sub-sectors such as the Aluminium Plant (KAP), Steel Factory and Bauxite Mine Niksic, as a consequence of restructuring, started to record a decreasing number of employees, which continued in 2010. The problems in the manufacturing industry sector should be resolved by restructuring and supporting the major companies in the sector. Bearing in mind the number of people that are planned to be laid off in the future, it can be expected that the number of recipients of unemployment benefits will increase.

Definitely, the increase in employment and the reduction of unemployment are the main priorities in the medium-term period in Montenegro. This requires that full attention has to be paid to both demand and supply on the labour market, and provision of assistance for the unemployed to become integrated into the labour market. There is a need for the fostering of labour mobility and making the labour market more flexible, by mitigating geographical constraints, underpinning the development of infrastructure, creating new programs, making living and working conditions for the local population much better, all this with a view to keeping them from migrating to other parts of the country.

The Montenegrin government and local authorities should continue fighting against long-term unemployment and youth unemployment, coping with the problem of structural unemployment and matching labour supply to labour

demand, tackling the problems caused by the global economic crisis, developing programmes for work with people who are hard to employ, reducing regional differences in employment and unemployment and preventing poverty in the north of Montenegro, etc.

Montenegro needs further and faster encouraging of the development of SMEs, entrepreneurship and employers to create more jobs. SMEs should be seen as the main driver of new job creation and reduction of the poverty level. Also, there is a need for improvement and promotion of female employment and especially female entrepreneurship since women need assistance in getting loans for business start-ups due to the fact that there is an unsatisfactorily low number of females who are owners of real estate.

In order to solve the unemployment problem, it is necessary to make a long-term strategy concerning the labour market. Measures and activities have been aimed at reducing structural imbalances in the labour market. Numerous active labour market policies (measures) have been designed and implemented during the recent period, but still have not completely achieved the desired results, since their impact on the labour market (in terms of activation of targeted groups) is still limited. The main reasons behind the only partial success of these measures can be found in the limited budget for the conduction of these policies.

The linkage between education and the labour market should be extended i.e. there is a need for alignment of the education supply with the labour market demands and increasing labour supply quality. This relation is a prerequisite for the creation of active employment policies. It often happens that the educational profile of individuals does not match the requirements of the labour market. The field of education and labour markets needs to be included in an adequate manner. The idea of introducing the profile of lifelong learning into the education system has also had a significant impact on the labour market. It is more difficult to create a policy that should overcome this "problem" in new action plans.

Fostering of labour mobility and making the labour market more flexible, by mitigating geographical constraints, underpinning the development of infrastructure, creating new programmes, and making living and working conditions for the local population much better should keep them from migrating to other parts of the country.

Continuous work is also needed in the elimination of all discriminatory provisions relating to the labour market, as recommended by the European Partnership and SAA, especially since vulnerable groups face special difficulties when entering the labour market and therefore require special attention.

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2.9 Romania: The Commodification of Work during the Economic Crisis

Valeriu Frunzaru

Abstract

This study approaches in a contextual manner employment in Romania, emphasising: the upshots of the transition from communism to capitalism; the phenomenon of migration; integration into the European Union; and the aging of the population. The current economic crisis has led to a decline in the number of employed people and in their salaries. The reaction of the Romanian Government to the economic crisis was to develop right-wing policies that had the effect of reducing what Gøsta Espig-Andersen named “decommodification” of the work force.

2.9.1 Introduction

The situation of employment in Romania was shaped by the transition from a centralised communist society, where the capacity of the employee in the labour market was not only a right, but also an obligation, to the capitalist society of market economy, where the capacity of worker is acquired as a result of the relation between supply and demand. The transition, a term that has entered the vocabulary not only of the media, but also of the common people in the last two decades, was associated in the 90s with great economic hardships that reappeared after 2008, along with the global financial crisis. Eliminating visas for EU Member States after 2000 meant that Romanians had opportunities to travel to the developed Western states and to find employment in their labour markets, usually without legal papers. Romania's accession to the EU led to full opening of labour markets in 10 Member States and to other states applying the transitional measures that postponed for a maximum period of 7 years the possibility for Romanians to find employment in these countries, at least in certain industries. The economic crisis did not discountenance the work force migration to developed countries (especially Italy and Spain), but reduced Romanian migrants'

remittances for those back home. The global financial crisis drastically affected the Romanian economy by dramatically reducing the GDP, with dire negative consequences regarding the employment and unemployment rates. The right-wing reaction of the Romanian Government was one directed towards labour market flexibilisation, which took the shape of a new labour code, generally criticised by labour unions for being too liberal.

Thus, an analysis of the labour market in Romania must consider at least five aspects:

1. The difficulties of the economic transition from a communist centralised economy to a capitalist market economy;
2. The substantial migration of the younger Romanian work force towards the more economically developed states of the European Union;
3. Romania's accession to the European Union meant enacting the Community *acquis* concerning employment;
4. The current economic crisis was approached by policies and strategies that also had a major impact on the labour market;
5. The growth of the dependency rate on the older population in relation to the active population, due to a decrease in birth rate, a growth of life expectancy and the migration of the younger population.

I will present the situation of the labour market, based on these five perspectives, supporting the ideas presented in this work by drawing on the scientific literature, relevant Romanian and European Union legislation or strategies and, respectively, statistical data offered primarily by National Institute of Statistics (NIS), the Romanian Ministry of Work, Family and Social Protection and Eurostat.

2.9.2 Transition and the Labour Market in Romania

It is impossible to speak about the social policies of the transition period from the communist totalitarian regime to a democratic, market economy society without briefly referring to the social policies of the communist dictatorship regime. According to the spiritual father of the communist society, Karl Marx, work created the man, but unemployment, as a social phenomenon specific to the exploiting capitalist system, represents nothing other than a source of animosity among the workers in their fight to obtain a job, which is a way to create dependency of those who sell their labour power on the capital owner (G. Ritzer and D. J. Goodman, 1983/2004, 51-52). In communism everyone had a guaranteed job, therefore the livelihood was ensured by the salary. Those "lacking an occupation" were perceived as criminals, they did not contribute to the building of socialism, were not a part of the system, hence they were a source of stress for the social order. Those who lost their job had social protection, the pension system along with disability, work injury and maternity insurance, all having a high coverage. Low wages were compensated by other benefits, received especially in consequence of being a part of the work force: free or subsidised houses, baths or holiday coupons and extraordinary financial aids. The pro-natalist policy and the low wages determined the develop-

ment of an active social policy for children, which took the form of generous allowances for children, scholarships and free holiday camps, favouring families with more children in allocation of housing or subsidising certain goods (such as food and children's products).

Even if the communist regime acknowledged the necessity of motivation, that is, of rewarding the work "according to the contribution for the development and advancement of the homeland" (as we saw stipulated in the 1966 pension law), the ratio between the maximum and minimum wage was established by law at 5.5, thus keeping the socioeconomic inequality within politically acceptable limits (C. Zamfir and E. Zamfir, 1999, 25). The reduction in wage inequality of the 80s happened also as a reaction to the growing economic crisis, reducing salaries being a solution to compensate the economic inefficiency.

We could say that "the social policy of the socialist regime was a mixture of a workfare state and the welfare state developed in the West" (C. Zamfir and E. Zamfir, 1999, 25). The social rights guaranteed by the communist state, ensuing from the capacity of being part of the work force, are an argument in favour of this.

The Revolution of December 1989 brought Romanians a high level of optimism regarding their economic and political future. While the societal model seen as worth trying to achieve by change was the Western one, the word "capitalism" was still avoided by the majority of politicians, signalling that anti-capitalist propaganda of the communist regime had consequences that lasted over time, including after the replacement of the totalitarian regime. It was even mentioned that it was necessary to adopt as a model the Swedish type of socialist state, defined by a high degree of prosperity and social solidarity.

The Romanian totalitarian regime drastically limited political and economic liberty.

In contrast to other ex-communist countries, Romania did not have political pluralism (even a fake one), nor elements of private property (except maybe for the areas not nationalised.) The isolation and the frustrations of an economic, social and political nature exploded in December 1989 in an anti-communist demonstration, where solidarity and the spirit of sacrifice amazed the whole world. Hopes for a better life in a free and democratic society were huge, and the disillusionments matched them. Liquidating the external debt, exporting food products and faulty management were seen as sources of poverty for the communist regime of the 80s. The regime change brought also a linguistic change. The old wooden language was replaced by the transition language: democracy, corruption, sacrifices, rule of law, neo- (crypto-) communists, nationalists, moguls, demagogues, politicking, decentralisation, local community, Community acquis, euroatlantic standards, IMF, World Bank, etc. This new language expresses, on one hand, the new values and, on the other hand, the difficulties and tensions of the transition.

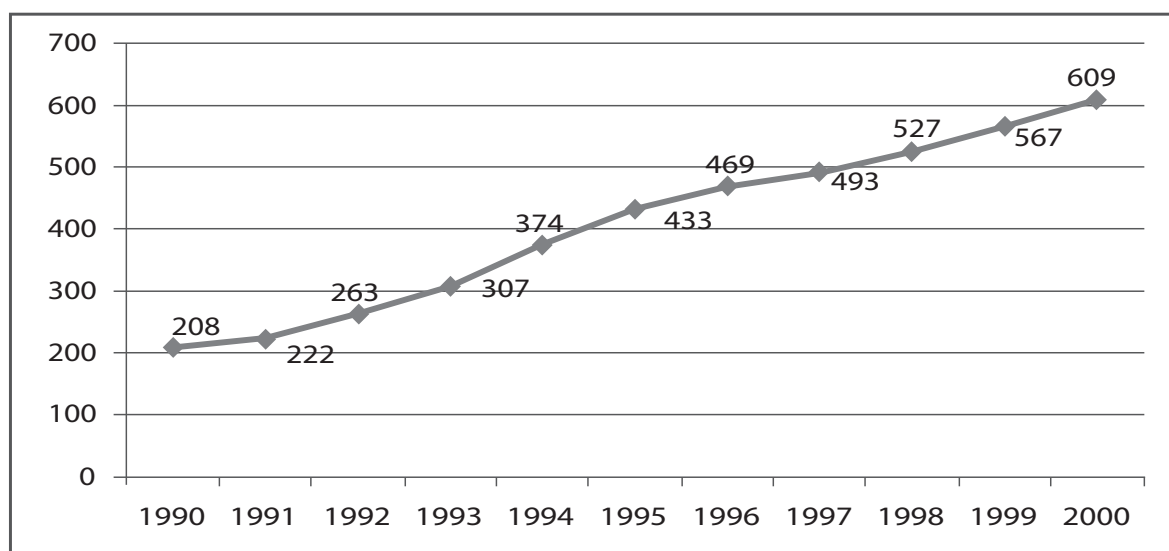
One of the most important consequences of the transition to market economy was the arrival of unemployment. While the communist regime boasted total employment, it is quite sure that there was an unacknowledged unemployment, estimated at 4.5% for 1989 (C. Zamfir, 2000, 13). The arrival of unemployment was one of the key problems of the transition, economically, politically and socially. It was closely related to aspects such as:

- the inheritance of old representations regarding the place of the work in society;
- the fear of the governments to carry out a reform that would lead to social tensions, with negative consequences for political parties in power;
- resistance to change on the part of workers;
- pressure from the labour unions, associated with a wave of demands;
- early old-age pensions;
- job protection through government subsidies for companies and even sectors (mining, for instance) (C. Zamfir, 2000, 15);
- costly layoffs, based on severance payments;
- resistance to change on the part of some persons and groups which, as it was said metaphorically, welcomed the possibility to fish in troubled waters.

One of the solutions used by the governments of the 90s, especially in the first years after the fall of the communist regime, was allowing early retirement, with older workers becoming retirees instead of unemployed. It was, politically and maybe even socially for a short period, an easy solution, but in the long run, this approach brought an increase in the number of retirees, especially disability retirees (Figure 1). The number of disability retirees almost tripled in 10 years, which raised serious problems regarding the sustainability of public pension system. Demotivating early retirement, the increase of the legal age for retirement was brought about only in 2000 through the pension and other social security law No19/2000 and the unitary system of public pension law No 263/2010. Law No 19 of 2000 brought two main parametrical changes. The first change was to increase the age of retirement from 62 to 65 for men, and from 57 to 60 for women. The second major change was the introduction of a new formula to calculate the amount of the pension, by calculating the value of it based on an average tally accumulated over the entire professional career, a tally that resulted in relating the employee's salary to the average national salary. The pension law of 2010 extended this formula for calculating the pension to employees of military institutions, and the retirement age for women is projected to grow to 62 by 2030. These laws demo-

tivating early retirement and increasing the legal age of retirement should lead to keeping older workers within the labour market as much as possible.

Figure 1. Evolution of the number of disability retirees in the 90s (thousands)

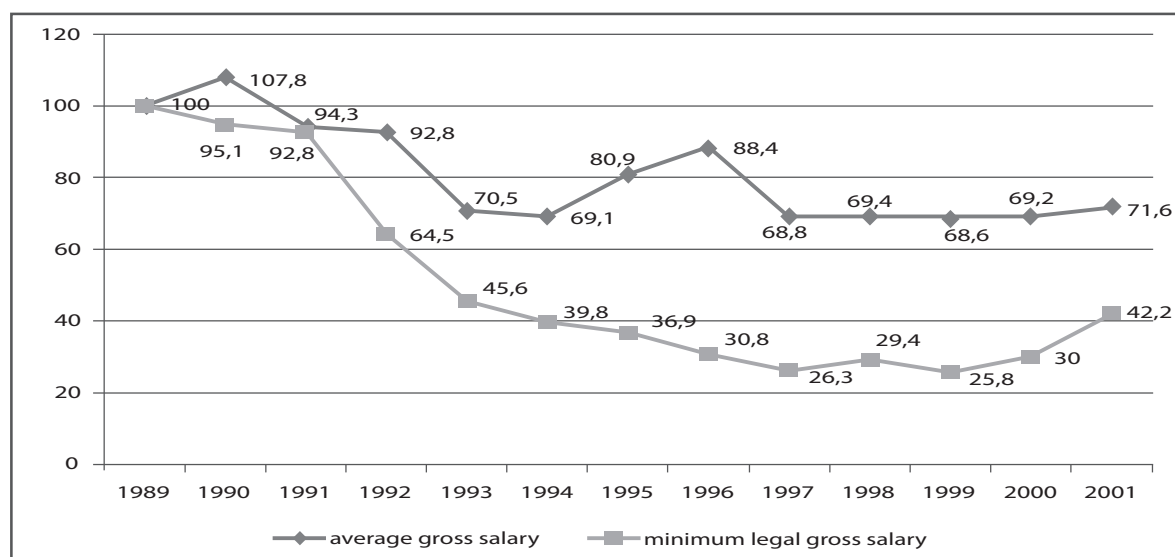


Source: NIS

The severe economic crisis led not only to the loss of work force, especially through early retirement, but also to a spectacular decrease in salaries compared with those of the last year of existence of the communist regime (Figure 2). The evolution of the average gross salary correlates with electoral events,

parliamentary and presidential elections of 1990, 1992, and 1996. The electoral year of 2000 is associated with an increase of minimum gross salary. Elections were, generally, important moments in the evolution of the amount of salaries, and especially pensions, in post-communist Romania.

Figure 2. The evolution of the average gross salary and average net salary in the 90s, compared with 1989



Source : Government of Romania, *National Anti-Poverty and Social Inclusion Promotion Plan*, CASPIS, 2002, p. 92.

2.9.3 Work Force Migration from Romania

Free movement of workers, along with free movement of capital and services, is one of the pillars that support the edifice of the European Union. In the Treaty on European Union from Maastricht, Chapter I, Section "Workers", the right of workers to work in any member state is guaranteed, along with equal treatment with workers who are nationals of the host country as regards hiring, labour conditions and pay. In the EU Charter of Fundamental Rights, Art. 15, it is stipulated that "Every citizen of the Union has the freedom to seek employment, to work, to exercise the right of establishment and to provide services in any Member State." Based on these principles, one of the EU objectives, according to the decision 2005/600/EC (which sets the guidelines regarding employment), is that persons seeking a job in the EU should be able to apply for all vacancies, published by the employment agencies of the member states.

Of particular importance in the European Union legislation is Regulation 1612 of 15 October 1968 reinforced (with further changes) regarding the freedom of workers within the Community, which stipulates even from its first article that EU citizens have the freedom to work in any member state.

Any national of a Member State, shall, irrespective of his place of residence, have the right to take up an activity as an employed person, and to pursue such activity, within the territory of another Member State in accordance with the provisions laid down by law, regulation or administrative action governing the employment of nationals of that State. (Regulation 1612/1968, Art. 1).

However, the accession treaty of Romania and Bulgaria to the European Union, Annex VII, established that nationals of these countries may be temporarily restricted from the labour markets of the member states. These

restrictions, called transitional measures, can be imposed by other member states for a two year period, at the end of which the European Council examines the implementation of these measures, and member states notify if they maintain the employment restrictions in their labour markets for three more years. If, in a member state having restrictions for Romanians and Bulgarians in its labour market, there are, or may appear, severe disturbances of the work force, this state can continue to apply the transitional measures for two more years. Therefore, the temporary restrictions applied to Romanian and Bulgarian workers in the labour markets of the member states depend on a decision by each member state, but they cannot exceed seven years (2+3+2).

Even at the time of the accession, ten member states (Cyprus, the Czech Republic, Slovakia, Slovenia, Poland, Estonia, Lithuania, Latvia, Sweden and Finland) completely opened their labour markets for Romanian and Bulgarian workers. In 2011, according to information from the Romanian Ministry of Work, Family and Social Protection website (9/21/2011), there were 10 other countries maintaining restrictions for Romanian workers, including France, Italy, Germany, Great Britain and Austria. Spain was among the countries that opened their labour market for Romanian workers, but at the request of Spanish authorities of July 28, 2011, the European Commission approved the restriction of Romanian workers until December 31, 2012. Spain's argument for this measure was the 3.9% GDP decline in 2008-2010 and the increase of unemployment to more than 20%, two aspects that led to a severe disturbance of Spanish labour market.

I emphasised the case of Spain because Romanian migrants went especially to Italy and Spain, two countries that currently have restrictions for Romanian workers, apart from certain sectors (agriculture, tourism, house-

work, construction, etc.) (Table 1). Italy and Spain are the destinations of 3 out of 4 Romanians who leave to work abroad. A high percentage of Romanian nationals from Transylvania (17%), very probably Hungarian ethnics,

went in Hungaria. People from Banat went not only to Italy, but also to Germany, because this historical region had an important German Community, much of it migrating to their homeland even during communism.

Table 1. Main destinations of temporary migration, by historical regions, 2001-2006, after Sandu (2010, 90) (%)

	Moldova	Muntenia	Oltenia	Dobrogea	Transylvania	Crișana-Maramureș	Banat	Bucharest	Total
Italy	76	21	62	75	42	41	43	75	50
Spain	14	54	21		17	29	4		24
Germany	1	8		13	3	3	29		5
Hungary					17	6			4
Greece			3		1		18	13	2
France	1	1	3		3	3			2
Other	6	14	6	13	13	12	7	13	10
Other	2	3	6		4	6			3
Total	100	100	100	100	100	100	100	100	100

The fact that Romanians left for much more economically developed states confirms the neoclassical economic theory which explains (international) migration through the economic gap between developed and less developed states. People from less developed states with an excessive work force migrate to states with more developed capital, where there is a work force deficit and opportunities for better wages. In this macro, push and pull type of approach, migration leads to a decrease of wages in the developed country, due to the excessive work force offer, and to increasing wages in the country of origin, due to the leaving of the work force. When the difference between wages begins to cover only the travel expenses, the migration stops, because its causes stop (Constantinescu, 2002, 95).

A theory that takes into account the help that a migrant gets in the society where he

or she migrates from relatives, friends, and other members of the community of origin is *the theory of the migrants' networks*. These networks, seen by Arango (2000, 291) as forms of social capital, provide the individual with information, financial help in finding a job or a house, and emotional and social support. While these networks form a mechanism that self-reproduces (each migrant can help other members of the community of origin), studies have shown that their expansion is limited, reaching saturation (Arango, 2000, 292, Constantinescu, 2002, 105). This theory is confirmed by Romanian migration of 1990-2006 when, in the beginning 22% of the migrants were helped by persons existing in those states, while at the end help came for 60% (Table 2). They were helped primarily by relatives and friends to leave and find work.

Table 2. How the migrant got abroad, after Sandu (2006, 30)

		Stages			Total
		1990-1995	1996-2001	2002-2006	
You got help from someone when leaving	Yes	22	40	60	52
	No	69	56	38	46
	NR	8	4	2	3
Who helped him or her when leaving	local relative	5	16	23	19
	local friend	7	6	16	13
	local acquaintance	3	3	5	4
	others	15	20	18	18
	not applying	69	56	38	46
	NR	0	0	1	0
How did you manage to find work abroad?	contracts brokered by the work office	10	7	3	4
	through Romanian brokering companies	22	21	11	14
	through relatives from abroad	7	13	27	22
	through friends from abroad	25	24	27	26
	directly asking the owner	17	13	15	15
	Others	12	10	12	12
	NR	7	10	5	7

Another theory explaining migration based primarily on the economic factor is the *theory of the dual labour market*. Within economically developed societies there is a segmentation of the labour market, on one hand, stable and well-paid jobs requiring high qualifications, and on the other hand, low-paid, unstable, dangerous jobs, associated with lower education and prestige, which workers nationals of that state refuse. If the gap between the economies of two countries is big, the individuals belonging to the poor economy will be attracted even by these low-paid jobs, and the problem of prestige is settled by comparing with the community of origin instead of the economically developed society where they work (Massey *et al.*, 1998, 30). The weakness of this theory lies in the

fact that in practice migrants don't leave the community of origin for preexisting jobs: they look for a job at destination, and the factor that triggers the decision to leave is not the duality of the labour market. Another criticism, addressed to all theories that restrain explaining migration to economic factors, is that there are countries with similar dual economic structures, but which are not targeted by migration (Arango, 2000, 290).

In spite of criticism of the theory of a dual labour market, Romanian migration confirms it, 72% of them working abroad in agriculture, construction and housework. The increasing number of migrants working in housework is due to the fact that women arrived in the destination countries after the men had migrated.

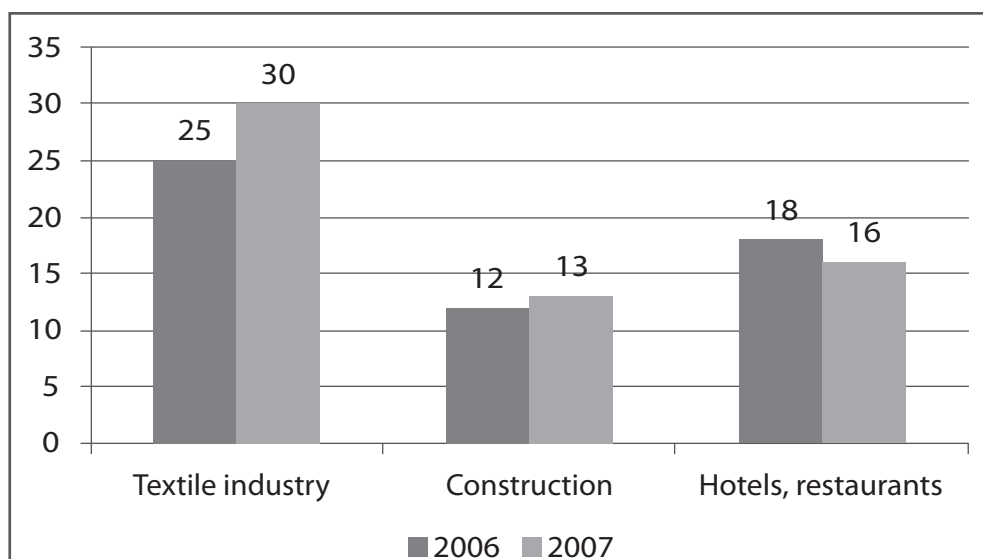
Table 3. In what field and how was the migrant employed abroad, after Sandu (2006, 34)

		stages			total
		1990-1995	1996-2001	2002-2006	
In what field did you work?	agriculture	14	14	16	15
	construction	41	42	28	32
	housework	0	7	28	20
	other	44	32	26	29
	NR	2	5	3	3
During this stay, did you work legally or illegally?	legally	53	57	31	39
	illegally	34	31	53	46
	both legally and illegally	8	7	9	8
	NR	5	6	7	6
Did you legalise your status during this stay for work?	no, I didn't even try to	68	58	53	55
	no, although I tried	0	10	28	23
	yes	12	28	13	15
	NR	20	5	6	7

We can conclude that initially migrants were mainly men with secondary and higher education, city residents who worked legally. In time, as the theory of migrants' networks and the theory of dual labour market explain, migrants were also women, rural residents, with lower education, who came to work illegally in the countries of destination.

The great number of Romanians who went to work outside their country was bound to have an impact on the labour market in Roma-

nia. Between October 20th and 30th 2007, at the request of Soros Foundation, a nationally representative survey was carried out with the objective of finding the problems that three industries (textiles, construction and hospitality) confronted because of the lack of work force. The result was that in the textile industry 30% of the companies had available jobs unoccupied for more than two months (Figure 3). The same problem confronted the other two industries, although at a lower level.

Figure 3. Distribution of companies that had available jobs unoccupied for more than two months in 2006 and 2007, after Şerban and Toth (2007, 5)

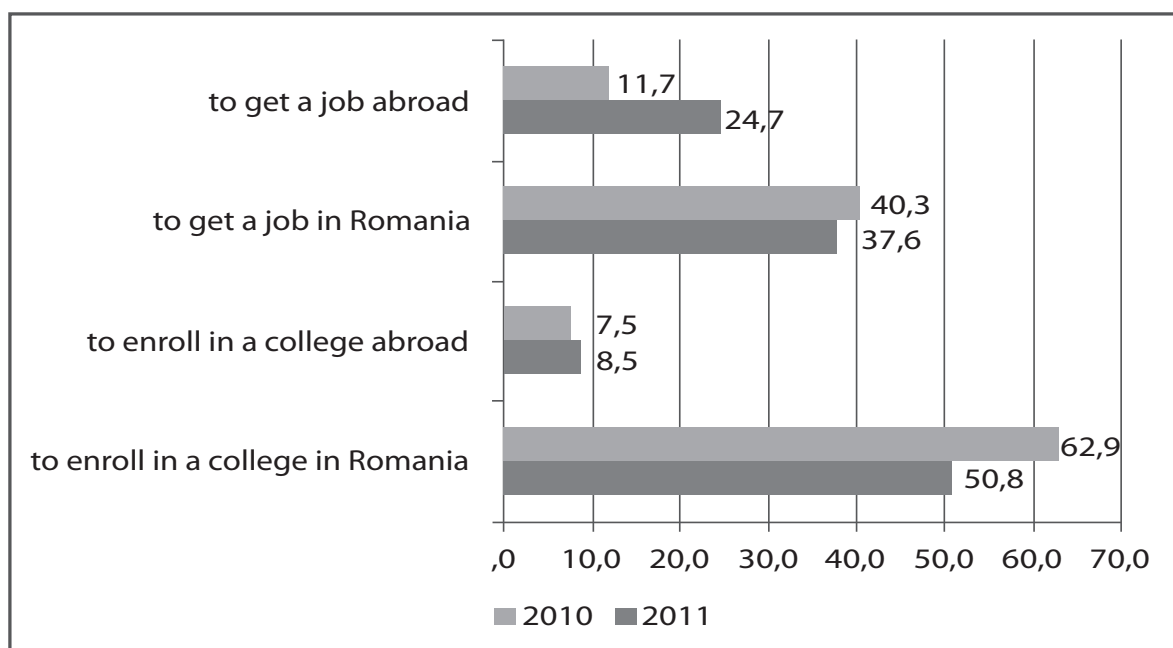
The good news is that, in order to face the difficulties of finding work force, most of these companies turned to investing in technology (76%) and increasing labour productivity (83%) (Şerban and Toth, 2007, 28). Bringing work force from abroad, a possible solution for the future, was a measure undertaken by no more than 3% of the companies. This means that, at least for time being, offsetting the work force lost to migration by bringing workers from abroad is not a solution. It must be said that this study was carried out in the best years of economic development after the fall of the communist regime, when the demand for work force was very high.

Also, we must not ignore the migration of "brains" from Romania to more developed states. This is a result of either Romanian university graduates remaining in these countries or specialists with experience acquired in Romania leaving, such being the case of medical doctors or IT specialists. After analysing the migration of Romanian specialists abroad, Anna Ferro underlines that "brain migration does not mean necessarily a brain exodus, because a to-and-fro movement of persons, competences and contributions continues to

constitute a connection with the country of origin" (Ferro, 2009, 227).

Because of the economic crisis, the condition of the labour market worsened both in Romania and the countries of destination for Romanian migrants. According to the World Bank, the remittances of Romanian workers dropped from 9.4 billion \$ in 2008 to 4.9 billion dollars in 2009 (<http://business-day.ro>, 12/26/2010). Nevertheless, Romanian teenagers see going abroad as a solution to the difficulties of having a decent life in Romania. Some sociological inquiries conducted on representative samples of the Romanian high school population in 2010 (n=2632) and 2011 (n=2624)⁹⁸ revealed that the intention of high school students to migrate grew, roughly one in four respondents declaring in 2011 that they undoubtedly wanted to go abroad to work (Figure 4). Between course, we need to distinguish the intention to migrate and the corresponding action, but these data show that the economic crisis in Western countries does not diminish the intention of teenagers to find a new life outside Romania. The opportunities back home are insufficient for many of the respondents, and "across" is better, at least as a perception.

⁹⁸ This study is part of the POS DRU project no. 41506: Instruments And Mechanisms Of Growth And Facilitation Of Higher Education Access Based On Horizontal And Vertical Partnerships Among Institutions Of Education, Central And Local Structures Of The Educational System And Social Actors, financed by the E.U. through the European Social Fund. For more information see Pricopie et al., 2010.

Figure 4. When I finish high school, I want [...]

2.9.4 Romania, a New Member State of the European Union

Romania acceded to the European Union on January 1st, 2007, with many hopes on the part of its citizens regarding an improvement of the standard of living and freedom of movement and finding employment in the developed Member States. Accession meant enacting the Community acquis, including as regards employment, as presented in Chapter 13 the "Employment and social policy". Preparing for accession to the European Union necessitated enacting new laws or applying the existing ones regarding employment, for:

- improving social dialogue;
- achieving gender equality on the labour market;
- fighting discrimination;
- increasing employment;
- preparing to benefit from the European Social Fund;
- achieving social security, protection of older persons and diminishing social exclusion;
- health and safety at work.

At the level of the Community, maybe the most important documents presenting the European Employment Strategy are the directives setting the guidelines regarding employment in the member states and the European Union strategies for a 10 year period, such as the strategies for 2000-2010 (the "Lisbon Strategy") and for 2010-2020 (the "2020 Strategy").

Directive 2005/600/EC establishes eight guidelines regarding employment in the member states for the period 2005-2008 (extended afterwards for two more years):

1. Implementing employment policies aiming at achieving full employment, improving quality and productivity of work, and strengthening social and territorial cohesion. For 2010 (as also specified in the Lisbon Strategy), the employment rate should reach 70% overall, at least 60% for women and 50% for older workers (aged 55 to 64).
2. Promoting a lifecycle approach to work. This is directed at employment among the young, women and older people.
3. Ensuring inclusive labour markets, enhancing work attractiveness, and creating

jobs for job-seekers, including disadvantaged people (low educated, disabled, immigrants and minorities).

4. Improving the match between the work force and economic necessities. This must be done, among other things, through anticipation of skill needs and removing obstacles to workers' mobility across Europe, within EU Treaties.
5. Promoting flexibility combined with employment security and reducing labour market segmentation. This can be done through anticipating economic restructuring and preparing workers for a possible change of employment status.
6. Developing a friendly labour market and a wage-setting mechanism. The social partners must negotiate wages, taking into account the productivity and the changes of the labour market. To create jobs, even reducing taxation for low wages is recommended.
7. Increasing and improving investments in human capital. This guideline is closely related to the concept of lifelong learning.
8. Adapting education and training programmes to the new competencies required in the labour market.

We notice that the guidelines regarding employment policies require measures in the fields of economy, education and social policy (including those related to pension systems reform). Full employment in a knowledge-based economy is the major EU objective for 2010.

The European Union Strategy for 2020 continues the Lisbon Strategy in the direction of increasing the employment rate, while respecting the principle of not discriminating in any way, in a knowledge-based economy. The employment rate in the European Union must reach 70% for persons aged 20 to 64 by 2020. Along with other common objectives of the European Union, this objective does

not implicate sanctions from Brussels towards those Member States that will not reach this threshold. The European Union establishes common objectives and a common language: it is even underlined in the Amsterdam Treaty that the employment issue is a common concern, but each state will develop its own policies regarding employment.

Kristin Jacobsson (2004, 359) asks herself how, from a sociological perspective, these non-binding agreements could gradually become binding from a social, political and moral point of view for the players involved. The researcher speaks about a "discursive regulatory mechanism" binding the member states to make decisions to reach European objectives. This discourse is characterised by:

... joint language use (key concepts and discourse); the development of common classifications and common operationalisations (indicators); the building of a common knowledge base (including collection and standardisation of statistics); the strategic use of comparisons and evaluations; the systematic editing and diffusion of knowledge and evaluation results; and all of the above combined with social pressure (peer pressure) and time pressure. (Jacobsson, 2004, 360)

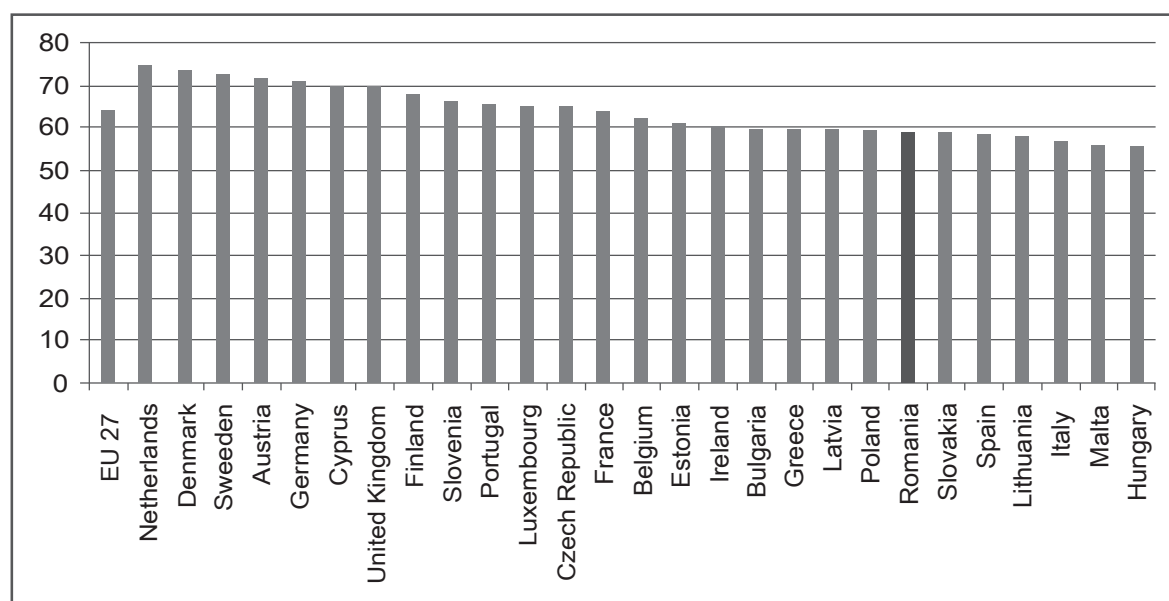
Can the soft governance mechanism lead to real consequences regarding employment, at the level of national states? Janine Goetschy (1999, 134) claims that the European Employment Strategy has apparently conflicting consequences: on one hand, the Europeanisation of some elements of national employment policies and, on the other hand, *National Action Plans* (NAP) will encourage, depending on the social players in each country, the social pacts on employment.

The European Union is currently going through difficult times that put to test a politico-economic but also cultural construction, which, a century ago seemed only a dream. If, at the beginning of the European construc-

tion, the stake was primarily political, now it is mainly economic. Indeed, Dimitrie Gusti, the founder of the Romanian sociological school, remarked in the interwar period that, if it failed to organise itself, Europe would “lose the primacy of civilisation.” A united Europe must be built on the principle developed by Saint Augustin, who said “Unity in necessary things; liberty in doubtful things; in all things love.” (Gusti, 1930/2003, 115). We do not know how much love is in the European construction, but we can say that at the foundation of the EU there are the common objectives (associated with common interests), liberty and unity. This interdependence reminds us of the theory of organic solidarity developed by Durkheim (1893/2001). The disappearance of borders inside Europe led to an increased interdependence among citizens, regions and member states, but within a construction named “communitary”, having a weak common conscience. If, at a national level, the problem raised by Durkheim was to fill the gap between the workers (citizens) and the state, at the EU level the gap that needs to be filled is between the citizens of the member states and EU institutions.

In this context of common values and objectives, on one hand, and economic crisis on another, the employment rate in Romania must increase significantly in order to

reach 70% in 2020 (Figure 5). Employment at the level of EU in 2010 was 64.2%, only five states exceeding the 70% threshold: the Netherlands, Denmark, Sweden, Austria and Germany. Many states from the former communist bloc and the Mediterranean region had an employment rate under 60%. Romania is one of these states, with a low employment rate of only 58.8%. Moreover, the employment rate is associated with a low quality of employment. According to Eurostat data, the employment rate in Romania is higher than in Italy and Spain, the latter having an unemployment rate that in 2011 exceeded 20%. But, if we were to consider the quality of employment, then the employment situation in Romania would be inferior to that of the two old Member States. It must be remembered here that by employed person we understand “all persons aged 15 and over who carried out an economic activity producing goods or services of at least one hour during the reference period (one week), in order to get income as salaries, payment in kind or other benefits.” (National Institute of Statistics, 2005, 14). For self-employed workers or family workers in agriculture who get no remuneration, the duration taken into account is of at least 15 hours weekly. Therefore, persons that work 15 hours in agriculture, even in subsistence agriculture, are seen as employed.

Figure 5. Employment rate in the European Union for the 15-64 age group in 2010 (source: Eurostat)

According to Eurostat, in 2008 in Romania the employment rate for the population aged 15 to 64 was 59%. But, as we can see in Table 4, out of the 9,369,000 employed persons 28.7% worked in agriculture, hunting and fishing. Therefore, the employment

rate was almost 60% when more than a quarter of the employed population worked in agriculture, a very high percentage in view of the fact that in economically developed countries only about 5% of employed persons work in agriculture.

Table 4. Employment structure, by activity of national economy, in 2008 (source: NIS) (in thousands)

		% by total
<i>Agriculture, hunting and forestry</i>	2,690	28.7
<i>Fishing and pisciculture</i>	¹⁾	
<i>Industry</i>	2,199	23.5
<i>Mining and quarrying</i>	107	1.1
<i>Manufacturing</i>	1,930	20.6
<i>Electric and thermal energy, gas and water</i>	162	1.7
<i>Construction</i>	747	8.0
<i>Trade</i>	1,178	12.6
<i>Hotels and restaurants</i>	154	1.6
<i>Transport, storage and communications</i>	509	5.4
<i>Financial intermediations</i>	110	1.2
<i>Real estate and other services</i>	298	3.2
<i>Public administration and defence</i>	476	5.1
<i>Education</i>	397	4.2
<i>Health and social assistance</i>	396	4.2
<i>Other activities of national economy</i>	211	2.3
Total	9,369	100

Extended data are not reliable due to the low number of observed cases.

A consequence of the great number of persons working in agriculture is the higher rate of employment in rural areas, compared with urban areas. In 2008 the employment rate in rural areas was 61.2%, and in urban areas 57.5% (Table 5). By age categories and compared with urban areas, the employment rate in rural areas was much higher for persons aged 15 to 24 and 55 to 64, respectively, that is for the persons towards whom the European Union shows a high concern in its employment policy. This paradoxical situation is due to the fact that it is much easier to be considered an employed person in rural areas, if one carries out agricultural activities of at least 15 hours weekly, as provided by the definition of the employment concept.

Table 5. Population structure, by participation in economic activity, by area, in 2008 (source: NIS)

Urban		
	<i>Employed</i>	<i>Unemployed</i>
<i>15 - 64 years</i>	57.5	4.2
<i>of which:</i>		
<i>15 - 24 years</i>	19.1	5.8
<i>25 - 34 years</i>	76.3	5.0
<i>35 - 44 years</i>	80.5	4.4
<i>45 - 54 years</i>	69.3	3.7
<i>55 - 64 years</i>	31.8	1.2
<i>65 years and over</i>	1.8	-
Rural		
<i>15 - 64 years</i>	61.2	3.3
<i>of which:</i>		
<i>15 - 24 years</i>	32.0	5.5
<i>25 - 34 years</i>	68.5	3.6
<i>35 - 44 years</i>	77.0	3.1
<i>45 - 54 years</i>	73.4	2.5
<i>55 - 64 years</i>	57.4	1.0
<i>65 years and over</i>	25.7	-

As a consequence, unemployment is also lower in rural areas, compared with urban areas. According to the definition of the Inter-

national Labour Organisation, unemployed persons are those who meet three criteria: 1) not having a job and not carrying out an activity in order to get an income; 2) seeking a job (applying in the last four weeks to employment agencies or private placement agencies, carrying out actions to start self-employed activities, publishing advertisements, appealing to friends, etc.), and 3) being available to start work in the next two weeks, upon finding a job immediately (NIS, 2005, 16-17). Hence, persons not seeking a job, thus being outside the labour market, are not unemployed. So, the unemployment rate is rather an indicator of the exits from the labour market, and not of the quantity of employment. This explains the paradox that in Spain unemployment is around 21% in 2011, and in Romania it is three times less, while the employment rate is the same.

Even if the employment rate for the young and for older workers from the rural areas is high, at the level of the entire population the percentage of employed persons is only 24.8% for those aged 15 to 24 and 43.1% for older workers (55-64). It may be noted that employment rate of older persons in 2008 was considerably less than the 50% threshold, as set by the European Union for 2010. And this was when less than one person out of three aged 55 to 64 from urban areas was employed in the Romanian labour market.

We can conclude that, when comparing the employment rate in Romania with other member states, we must consider the high percentage of persons working in agriculture, many of them in subsistence agriculture. To that we must add the fact that 13.5% of employed persons work in public services (Public administration and defence, Education, Health and social assistance), therefore being paid from the public budget. Consequently, there is a low number of persons working in economic sectors that support the state budget and contribute to the social security

budget (few agricultural workers having social security), which raises the problem of the sustainability of the public pension system.

One last aspect that needs to be approached is that of gender equality in the labour market. According to the Lisbon Strategy, the employment rate among women had to be at least 60% in 2010. Of the 27 member states, 11 had already reached this threshold in 2010, but some new member states (Malta, Poland, Hungary, Slovakia, Romania) or states from the Mediterranean area (Italy, Greece, Spain) are greatly lagging behind the EU objective for 2010. Women's employment rate in Romania was 52% in 2010, placing us in 23rd position in a hierarchy of the member states. The lowest employment rates among women in some member states determine an average rate of 58.2% in EU for 2010. In view of the fact that in 2000 the employment rate among women in EU27 (theoretically computed, because at that time only EU15 existed) was 53.7%, then the increase for the ten years corresponding to the Lisbon Strategy was 4.5%.

In 2008, according to data of the National Institute of Statistics, the employment rate among women aged 15 to 64 was more than 13 per cent lower compared with men (Table 6). The differences in employment level increase with age. If in the case of persons aged 15 to 64 the difference between men and women is 8.9%, for older workers the difference grows to 18.6%. If we consider only the persons aged 55 to 64, the gender difference regarding employment rate is also a result of the lower legal retirement age for women. But if we consider all age categories, the explanation of this negative correlation between age and gender differences regarding employment rate may come from changes of a cultural nature. Newer generations are more open to a higher involvement of women in the labour market.

Paradoxically, a lower unemployment rate among women is, as we mentioned above, an indicator of the lower presence of women in the labour market.

Tabel 6. Population structure, by participation in economic activity, by sex, in 2008 (source: NIS)

Male		
	<i>Employed</i>	<i>Unemployed</i>
<i>15 - 64 years</i>	65.7	4.9
<i>of which:</i>		
<i>15 - 24 years</i>	29.1	6.8
<i>25 - 34 years</i>	77.7	5.6
<i>35 - 44 years</i>	85.8	4.6
<i>45 - 54 years</i>	79.2	4.6
<i>55 - 64 years</i>	53.0	2.1
<i>65 years and over</i>	17.9	-
Female		
<i>15 - 64 years</i>	52.5	2.7
<i>of which:</i>		
<i>15 - 24 years</i>	20.2	4.5
<i>25 - 34 years</i>	68.2	3.3
<i>35 - 44 years</i>	72.2	3.1
<i>45 - 54 years</i>	62.7	2.1
<i>55 - 64 years</i>	34.4	0.3
<i>65 years and over</i>	13.4	-

2.9.5 The Economic Crisis and the Employment Policy

From 2000 until the arrival of the global economic crisis Romania enjoyed steady economic growth, due in part to an increase in population borrowing from banks to buy houses or fast moving consumer goods. GDP growth in Romania was over 6.5% on average for 2003-2008, with positive values of 7.7% in 2006 and 7.1% in 2008. The financial crisis associated with the economic crisis led to a decrease in foreign investments, in Romanian migrants' remittances from Western European countries and to blocking the possibility of taking credit for buying houses. The

decline of Romania's GDP was 7.1% in 2009 and 1.3% in 2010, which raised the problem of financially supporting state employed persons and pensioners. To gradually adjust the budget deficit and to surpass the problem of the current account deficit, the Romanian Government borrowed almost 20 billion Euro from the IMF, the World Bank, the European Union and the European Bank for Reconstruction and Development. These loans were conditioned by implementing policies that limited the budget deficit and rising inflation.

According to the letter of intent addressed by the Government of Romania to the International Monetary Fund (IMF) on April 24, 2009, in 2005-2009 the increase in wage costs in the public sector was over 200%, given the wage increase and the rise of the number of public sector employees. In the context of the economic decline, the Romanian Government pledged in the fiscal policy chapter, among other things, to:

1. raise social security contributions by 3.3%;
2. reduce incentives and other benefits and eliminate 137,000 vacant jobs, which, in the opinion of the authors of the letter, were used to award greater salaries to the existing personnel;
3. eliminate salary increases in the public sector scheduled for 2009 (or an equivalent reduction of the number of employees);
4. reduce the number of employees in the public sector, including by replacing only one out of seven employees that leave the public sector;
5. apply a new unitary salary scale (the quota of the non-salary costs will no longer exceed 30% of the total public remuneration);
6. continue the parametrical reform in the public pension system, including increasing the retirement age, especially among women.

We may note that obtaining the loan from the international institutions was not

enough to solve the problem of the current account deficit. The Romanian Government aimed to diminish public personnel spendings by reducing salaries and the number of state employees. In order to keep a low budget deficit, after the decline of the GDP, the measures undertaken by the Romanian Government were even more drastic than the ones promised to the IMF in April 2009. In the letter addressed to IMF on September 9, 2010, the Romanian Government mentioned that it reduced the public salaries by 25%, it reduced the number of employees by 27,000, it reduced social remunerations by 15% and increased the VAT from 19% to 24%, so that, at the end of the year, the budget deficit was only 6.8% of the GDP. These measures have been associated, among other things, with the reform of the health care system and the reform of the education system. For instance, to make the health care system more economically efficient, 370 out of a total of 435 hospitals have been transferred from central level to local level, and management and administrative personnel have been reduced so that wage costs would not exceed 70% of the total spendings of hospitals.

We can conclude that the measures undertaken by the Romanian Government were very drastic for the public sector personnel. The salary decrease was over 25%, due to eliminating the possibility of paying overtime, dismissing some of the existing personnel and blocking vacant positions led to an increase in unemployment. The decline of the purchasing power of the workers in the public sector led to a decline of consumption, with negative consequences for the private sector. The decline of the GDP in 2009 and 2010 was a result, among other things, of a decline in construction (13.6% in 2009 and 10.7% in 2010), commerce, auto repair and household items, hospitality, transportation and telecommunications (11.2% in 2009 and 4% in

2010.) We may notice that the biggest decline was in sectors affected by cash flow problems (construction) and the decline in the income of the population (commerce and tourism).

I mentioned only those measures and reforms that affected directly only the personnel employed in the public sector. The Parliament of Romania voted the Law 40/2011, which became effective on May 1, 2011, and changed the Labour Code.

An important change to the Labour Code was the one regarding the trial period (Art. 31). Thus, to verify the employee's abilities, the trial period increased from no more than 30 days to no more than 90 for staff positions and from no more than 90 days to no more than 120 days for management positions. The specification that for unskilled workers the trial period is exceptional and cannot exceed 5 working days was eliminated. Whereas the first 6 months, at most, of graduates entering employment were considered a trial period, according to the new law this period is considered a training period. A very important new regulation is that according to which, during or at the end of the trial period, the individual employment contract can stop *without notice*, on the initiative of either of the parties, *without it being necessary to justify it*.

The compensation in the situation where there is a temporary activity restriction, due to economic, technological, structural, or other similar reasons, can now be less than 75% of the base pay corresponding to that workplace (Art. 53). The regulation according to which the employer who decided collective redundancies cannot hire again for the workplaces of the dismissed employees over a period of 9 months (Art. 72) has been eliminated. If the employees are notified that activity is to be resumed, they can agree in writing in no more than 5 days (10 days in the old Labour Code) to resume activity. Also the period of notice increases from no more than 15 days

to no more than 20 days for staff positions and from no more than 30 days to no more than 45 days for management positions.

The fixed-term individual employment contract can be concluded for no more than 36 months, 12 months longer than in the old law. As regards the collective employment contract, Law 40/2011 abolished articles 238-247 regulating these written contracts between employers and employees. Only minimum wages can be negotiated through collective employment contracts, and individual wages will be established only through individual negotiations (Art. 157). Labour unions also lose their importance in negotiating work regulations, which are no longer decided *with the approval of*, but *after consulting* the labour unions (Art. 129), and evaluating the accomplishment of performance objectives will be the criterium for collective redundancies (Art. 69).

There are new regulations in favour of employed persons. The Labour Code currently allows concurrent positions at different employers or at the same employer, with the employee getting the appropriate wage for each of these positions (Art. 35). If a person is disciplinarily sanctioned, this sanction is expunged *de jure* after 12 months if, during this time, the employee does not receive a disciplinary sanction. The new Labour Code stipulates a fine or imprisonment as sanctions for employing without an individual employment contract more than 5 persons (irrespective of their nationality), awarding wages under the level of the legal minimum gross wage for employees hired on the basis of an individual employment contract, or refusing access for labour inspectors to the premises of the firm or not releasing the documents required by them.

Labour unions were dissatisfied with the changes introduced into the Labour Code by Law 40/2011, and afterwards by Law 62/2011 regulating social dialogue. The five nationally representative labour union confederations de-

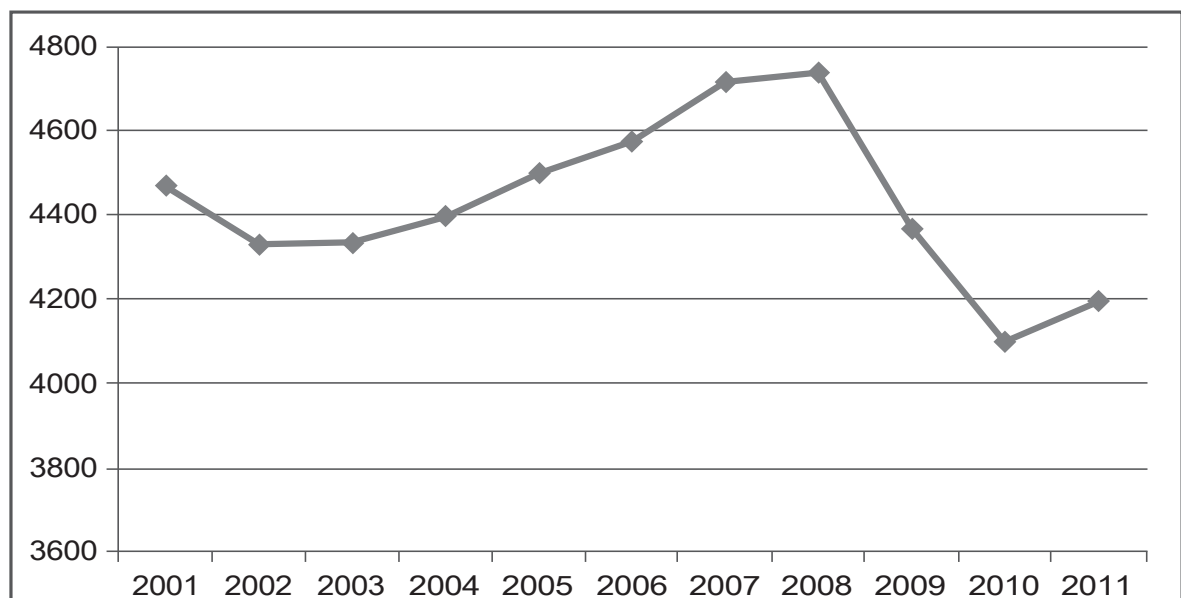
cided to temporarily resign their positions from all social dialogue committees and from the Economic and Social Council, established indefinitely according to the stipulations of Law No. 62/2011. In a letter addressed to the Romanian Prime Minister, the five confederations claim that “the current form of the Law No. 62/2011, and the way this law is applied, abolish the tripartism of the social dialogue in Romania, blocking the unfolding of negotiations for collective employment contracts, because the social partners are impaired in acquiring their representativity. During the last two years, the Romanian Government has promoted a substantial change in the labour legislation, but also in laws governing the social security system, without taking into account any of the common proposals expressed by labour union organisations and some of the employers’ organisations.” (<http://www.cartel-alfa.ro/default.asp?nod=20&info=47978>, 29.09.2011).

On one hand, the national Labour Union Confederation “Cartel Alfa” named the new Labour Code a code of slavery at the workplace, on the other hand the right-wing government claims that the new Labour Code will lead to a flexibilisation of the labour market, the Prime Minister declaring that “if we do not

do that, we will not succeed in being competitive with what is happening in the European or global labour market in any field.” (http://www.gov.ro/primul-ministru-emil-boc-noul-cod-al-muncii-va-duce-la-flexibilizarea-pietei-muncii__1a112367.html, 28.09.2011).

The crisis led to a decrease of the number of employees, in 2010 there were 13.5% less employees in the economy than in 2008 (Figure 6). In 2003-2008, a period of high economic growth rate, the number of employees grew, but because of the economic crisis in 2010 there were less workers in the economy than in 2001, the year of the beginning of the economic recovery. I mention that the employees in the economy are the persons not employed in the agriculture or public sector. Thus, if we take into account the redundancies in the public sector, the number of persons employed in the labour market in Romania dropped even further during the economic crisis. I also have to emphasise that the increase in the number of employees in 2011 compared with 2010 is due to the fact that I have taken into account for this year the month of July, a period when generally the employment rate is higher, due to seasonal work (e.g. construction, tourism, agriculture).

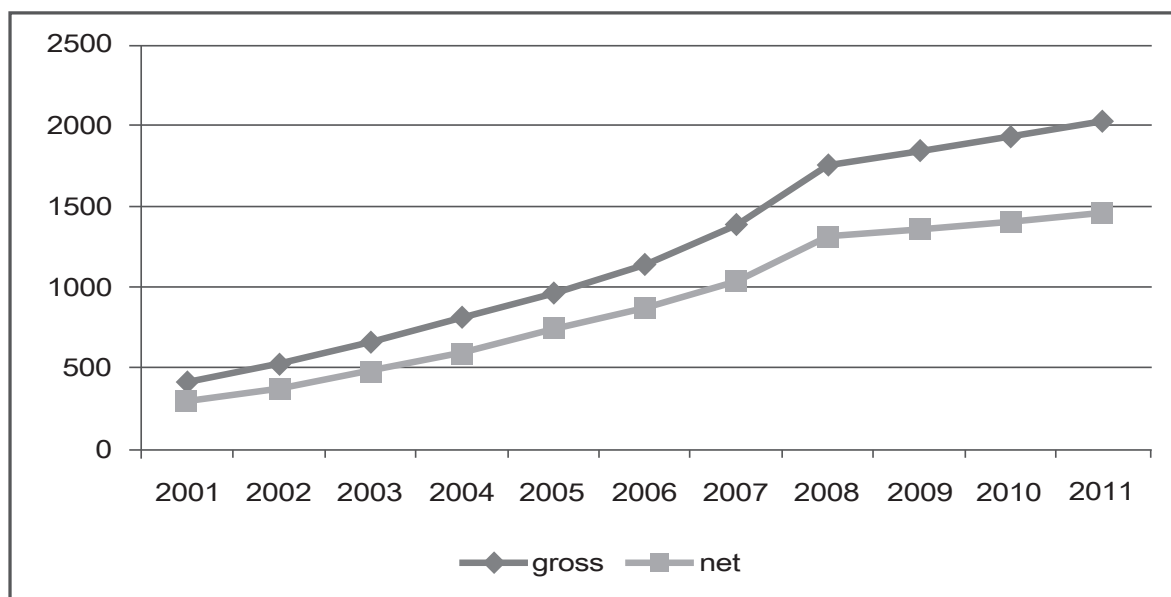
Figure 6. Evolution of the number of employees in the economy in 2001-2011 (in thousands)
(Source: Ministry of Work, Family and Social Protection)



The economic growth was associated with a high increase in salaries (Figure 7). In 2009-2011 salaries continued to rise, but this rise did not cover the inflation, due especially to increasing the VAT. While the inflation rose by 5.6% in 2009 and 6.1% in

2010, the net average wage rose by only 4% in 2009 and 3.4% in 2010. We may also notice that, due to rising taxation and social security contributions, after 2008 the difference between average gross wage and average net wage rose.

Figure 7. Evolution of average gross and net wage in 2001-2011 (RON) (Source: Ministry of Work, Family and Social Protection)



Note: Data for 2010 are provisional, and data for 2011 refer to the month of July.

We can say that the right-wing measures undertaken by the Government of Romania in 2008-2011 did not succeed in preventing a decrease in the number of employed persons and a decrease in salaries. Given that only a few months have passed since the new Labour Code became effective, and the prolongation of the economic crisis, it is difficult to assess the impact of these new regulations on the economic trend and labour market.

2.9.6 The Aging of the Population and the Labour Market

Medium and long-term forecasts raise serious problems regarding the future of the work force in Romania and the sustainability of the social security systems, especially the public pension system.

The increase in life expectancy and low fertility have led to the aging of the population. The great number of older persons in relation to the rest of the population creates an enormous pressure on welfare states, which have to undertake firm measures in order to maintain financial sustainability. Health care systems and pension systems are under the enormous burden of a constantly rising rate of dependency: less and less workers contribute to these social protection systems for the benefit of a rising number of pensioners. According to estimates, life expectancy in UE15 countries will increase by four-five years by 2050 (European Commission, 2003, 12-13). For the majority of member states (EU15), life expectancy of women will exceed 84 years, reaching even 87 in France. For men, in 11 Member States, life expectancy will reach

the 80-year threshold, even 82 in the case of Sweden. Given that life expectancy in excess of the age of 65 (the retirement age in most member states) is currently 15.5 years for men and 19.5 years for women, its increase by four-five years means an increase of the total numbers of pensioners by 25-30%. If the dependency rate (the ratio between the total number of persons aged 65 and over and the number of persons aged 15 to 64) was almost 25% in 2000 for EU15, in 2050 it will be close to 50% (the rate will almost double). Moreover, dependency rates estimated for 2050 are highest in countries such as Italy, Spain and Greece (for the first two, estimates exceed 60%), which face a low employment rate.

The situation of Romania is even more serious. Romania's low birth rate, the increase in life expectancy and international migration led Vasile Gheţău (2004, 26) to declare that: "the demographic situation of Romania has reached a degree of complexity and danger so high that intervention is the only alternative

to be considered." He presents three possible prognoses that take into account the evolution of birth rate and life expectancy, but not migration. If, for all three variants, one uses the same estimate of life expectancy increase, the fertility rate remains that of 2005 (an average number of 1.25 children born to every woman) for the lower variant, then it rises to 1.8 in 2020 and subsequently to 2.1 in 2050 for the medium variant and, in the case of the higher (optimistic) variant, it even reaches 2.1 in 2020. A desirable 2.1 fertility rate per woman is taken into account because this is necessary for demographic reproduction. If we take into account that in Romania 102 boys are born for 100 girls, for demographic reproduction 100 women must have 202 children. And if we also take into account mortality until fertility age, we reach a necessary fertility rate of 2.1. It needs to be mentioned that, although more boys than girls are born, in Romania there are more women than men, because women's life expectancy is higher than that of men.

Table 5.2. Demographic prognosis for Romania (2005-2050) (after Gheţău, 2004, 17, 25)

	Total fertility rate	Life expectancy	Romania's population (thousands)	Proportion of persons aged 65 and over	Dependency ratio (persons aged 65 and over out of 100 adults)
Lower variant					
2005	1.25	67.7/75	21,626	14.8	23.9
2020	1.25	71.6/78	20,501	17.2	27
2050	1.25	76/82	16,290	30.7	55.8
Medium variant					
2005	1.25	67.7/75	21,704	14.8	24
2020	1.8	71.6/78	21,509	16.6	27.3
2050	2.1	76/82	20,289	24.7	47
Higher variant					
2005	1.25	67.7/75	21,729	14.7	24
2020	2.1	71.6/78	22,152	16.1	27.3
2050	2.1	76/82	22,093	22.7	43.1

We may notice that even in the most optimistic variant the dependency ratio (total number of persons aged 65 and over related

to the number of persons aged 18 to 64) will be almost double in 2050, compared with 2005. If we were to also take into account the

migration of a great number of Romanians (most of them young), then the demographic forecasts would be even more worrying.

To prevent this problem of a rising dependency rate it is obviously necessary that the number of employed persons increase and the number of the pensioners decrease. Achieving these objectives is possible through closely interrelated policies. The laws regarding the public pension system (19/2000 and 263/2010) led to increasing the retirement age and demotivating early retirement. As regards the new Labour Code which, in its authors' opinion, leads to the flexibilisation of the labour market, it should lead to an increasing employment rate.

2.9.7 Discussions

Analysing employment is a difficult and complex process, because we face a changing reality which can be seen from at least economic, demographic, social policy, education, migration, labour sociology, anthropology or ethics perspectives. The approach in this study was a contextual one, taking into account the difficulties of the Romanian society's transition from communism to capitalism, the massive migration of the Romanian work force, Romania's capacity as a Member State of the European Union, the current economic crisis and the demographic forecasts concerning the aging of the population. This approach allowed, I hope, the creation of a nuanced present image of employment in Romania, through a time-dependent (past-present-future) and geopolitical (Romania as a part of the European Union) analysis.

The analysis of the transition of employment from the communist system to the capitalist one brought into light policies with an impact that we still experience now. Transition was like a punch in the solar plexus for the majority of Romanians who were looking

at the future with huge optimism. The arrival of unemployment, the decrease in wages and the very high rates of inflation were harsh realities that Romanian workers and their families had to confront. Romania in transition was an anomic society, in search of new norms, values and institutions. Employment policy was reactive and tardy, and it had three dimensions that impacted negatively on the pensioners' dependency rate to the employed population, on the national budget and on the mentality of the population. First, the early retirement of older workers led to an increase in the number of pensioners and to a decrease in the number of persons contributing to the public pension system. Second, the persons that were dismissed were compensated with large amounts of money corresponding to a certain number of wages, a number smaller or larger according to the length of service. This led to the creation of high expectations on the part of workers regarding possible redundancy and therefore to inflexibility of the labour market. Third, 10 years had to pass after the fall of the communist regime for the new pension law to become effective, and another ten for building a unitary pension system. Also the enforcement of the law regarding compulsory and complimentary fund-type pensions that underlies the construction of the multi-pillar pension system was accomplished only at the beginning of 2008. Privatisation in the economy was also delayed, which can be explained, among other things, either by resistance to change (there was the slogan "Our country is not for sale!", supported by a number of the population) or the lack of clear ideas regarding the strategy to be followed.

As regards the search for a direction for the Romanian society to follow, we must emphasise the importance of international players, primarily the European Union, the IMF and the World Bank. Some of the Romanian

sociologists criticised the involvement of international players, especially that of the IMF and the World Bank, in policy development in Romania. Lazăr Vlăsceanu (2001) criticised the IMF and the World Bank for their lack of interest in institutional development, Cătălin Zamfir criticised them (2004) because they tried to impose their own solutions, even if they lacked legitimacy, and Marian Preda (2002) did so for the confusion created by the multitude of recommendations, sometimes contradictory ones, that came from these international actors (amongst others). The IMF had and still has an important role in developing policies that have an impact on employment in Romania. As we saw, the loan contracted by the Romanian state from the IMF following the agreement concluded in 2009 was conditioned by a series of measures that led to many Romanians losing their jobs and receiving reduced wages. It is not to be denied that undertaking unpopular measures was sometimes justified by appealing to these international players.

Accession to the European Union was conditioned on developing certain policies and implementing certain laws corresponding to the communitary values and *acquis*. I have insisted on the European context in my analysis of employment in Romania because, although the European Union does not establish the national policies in this field, it nevertheless establishes the common objectives, and what Kerstin Jacobson (2004) names a "soft system of governance" has an impact on national policies regarding employment. Also, we can talk about employment in Romania only within the common labour market of the European Union. The free movement of workers, even with certain restrictions for Romanians in certain Member States, allows the legal migration of the Romanian work force. Therefore, when speaking about employed persons in Romania, we must take into ac-

count the migration, temporary or not, of the Romanian work force towards developed countries, especially Italy and Spain.

The most acute current problems of employment in Romania are caused by the severe economic crisis, a situation that has led to the undertaking of certain measures and implementing certain policy that had and will have a major impact on Romanian workers. First, the wages were drastically diminished and the number of persons in the public sector reduced. Then new and important laws for the labour market were developed: the law regarding the unitary salary system (2009), the law regarding the unitary pension system (2010), the law changing the Labour Code (2011), the law regulating social dialogue (2011), and the law of education (2011). On one hand, these regulations come to eliminate certain social inequalities (differences in wages or in establishing the amount of the pension), and on the other hand they award less rights to workers and labour unions. Their acknowledged aim is the flexibilisation of the labour market, but this raises the problem of the relation between flexibilisation and precarity. Obviously, the solutions undertaken are of an ideological nature, they are liberal, undertaken by a government supported by two parties which are members of the People's Party group in the European Parliament. But that does not mean that we cannot be critical towards what is called "the flexibilisation of the labour market." The word "flexible" is in itself one with positive connotations. In general, flexible persons are appreciated and inflexible persons criticised. But in our case, flexibility takes the form of longer trial periods when hiring, prolonged fixed-term contracts, easier firing or a diminished role for labour unions in collective bargaining. In a crisis situation, such as the current one, when the unemployment rate is high, this flexibility is to the advantage

of the employer, it is the flexibility of the capital owner to buy or discard the work force. Only in the case of an economic boom, when there is full employment, when work force demand is at least as great as the work force supply, only then is flexibility (also) to the advantage of the employed persons. Moreover, we can ask ourselves to what extent this flexibilisation of the labour market, in the guise of these liberal measures, is to the advantage of older, undereducated, or female workers. This is why Patrizio Di Nicola declares: "Flexibility must be an opportunity not for employers, but also for employees, who must not live it as a misfortune or as a life sentence to precarity and to poverty." (Di Nicola, 2011, 17). And if we look into the future, persons working part-time or on fixed-term contracts will have a smaller pension or even not contribute enough years to have a pension. I do not want to criticise a set of measures undertaken from an ideological perspective by another ideological perspective, maybe a left-wing one, but only to emphasise the fact that the attractive language hides interests that are not adequate for all the parties.

If the last 20 years have had a serpentine evolution, with socio-economic problems in the 90s, economic growth in 2001-2008 followed by a crash beginning in 2008, the future poses even more serious problems that cannot be answered by ad-hoc solutions. The decline in birth rate, the increase in life expectancy and the migration of the younger population raise the problem of the future of the Romanian work force and financial sustainability of the public pension system. The solutions for this problem are long-term ones, with a strategy that takes into account several fields. Consistent parametrical reforms have already been effected by the reform of the first pension pillar and the creation of pillars II and III. But there still are differences regarding the retirement age for men and women.

The political class, probably also for electoral reasons, did not carry through with gender equality in this regard. For the future, the retirement age for women needs to be raised to 65, given the growing employment rate and higher life expectancy among them.

The increase of both birth rate and employment rate among women can be achieved only if there are enough nurseries and kindergartens to provide support for employed parents. There must also be a change in mentality, among both women and men, regarding the status of the woman and man within and outside the family. This change of mentality is hard to accomplish – Parliament cannot enact a law in this regard! –, but discouraging discrimination in the labour market, fighting domestic violence, and encouraging the Roma population (especially female) to carry on with their studies are policies that, along with other factors, can produce a change in mentality.

A higher level of education helps the individual to find more rapidly a job better paid, and helps the employer to be more competitive in a knowledge-based economy. Investing in education will have to be a part of any government, right or left. The law of education stipulates that the budget allocated to education must be at least 6% of the GDP. In none of the years since the enactment of this regulation (2007) has it been applied. Even if the new law of education (Law 1/2011) stipulates a minimum 6% of the GDP to finance education (Art. 8), the Minister of Education declared that Romania cannot yet afford to allocate this percentage of the GDP. Low salaries of teachers can lead to a negative selection of education personnel, the valuable graduates of higher education are not motivated to become teachers. In 2011, after a more careful supervision of the high school final examination, the success rate among high school students was 45%, a drop of more than 20% compared with 2010. These data

are an indication of the current state of things in Romanian education and consequently of the future of the Romanian work force. Therefore, applying the law that allocates a minimum of 6% of the GDP to finance education, is a necessity.

We can finally conclude that in Romania a reduction of what Gøsta Esping-Andersen (1990/1997, 35-37) named "decommodification" is taking place, that is, a diminution of the condition of the work force as a commodity. Following Karl Marx and Karl Polanyi's theories, Esping-Andersen emphasises that decommodification does not implicate the eradication of

the work force as a commodity, but refers to the fact that, due to the social policies, the individual or the family can enjoy a minimum standard of living independent of the participation in the labour market. Currently, in Romania a process is under way because of which the worker enjoys less rights, both as an employee and as an insured person. The retirement age (consequently the contribution period) rose, paternity leave was reduced from 2 years to 1, and the social benefits (e. g. the guaranteed minimum income or the subsidy for paying the heating bill during winter) are allocated, based on more restrictive criteria.

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2.10 The Labour Market Crisis and the Road to Job Recovery in Serbia

Mihail Arandarenko

Abstract

The impact of the economic crisis in Serbia was rather mild in terms of output contraction, but a very severe one in terms of job losses, which significantly worsened the already difficult labour market situation. Under such circumstances, employment growth, alongside with the reduction in absolute and relative poverty, needs to be defined as an explicit final objective of any development strategy for the next decade. Macroeconomic and sectoral policies and institutional reforms need to create an environment conducive to job growth. Labour taxes for low wage labour need to be substantially reduced, and making work pay policies introduced. The education policy should improve the quality and efficiency of education and tackle the growing skills gap. More funds are required for active labour market programmes. Social dialogue should be given more prominence, and collective bargaining in the private sector should be encouraged.

2.10.1 Labour Market Situation in Serbia

Since the revival of transition in Serbia, following the democratic changes in 2000, a continuing decline of activity and virtually uninterrupted decline of employment have been observed, while unemployment has developed in a less linear fashion, but has also grown overall. The crisis from 2008 has worsened these already very unfavourable trends. Clearly, there are multiple problems related to the labour market situation in Serbia that need to be addressed. The analysis of labour market trends which will be presented here points to the decisive role of challenges to the employment generation with regard to macroeconomic and structural demand in Serbia. Transition- and privatisation-induced deindustrialisation and lack of investment in the real sector have caused a general decline in the demand for labour. Furthermore, the drop in demand was not uniform within the country – areas that suffered the most during the transition were underdeveloped regions relying on traditional manufacturing indus-

tries and a skilled and semi-skilled workforce. This has led to the further deepening of regional disparities in GDP and employment and in other labour market indicators.

General demand for labour is weak because of a variety of mutually reinforcing reasons, which include:

- very high levels of labour hoarding (excess employment) in former socialist enterprises, causing prolonged employment shedding in the processes of restructuring and privatisation,
- a demand and consumption-driven growth model
- high non-wage labour costs (taxes and social security contributions)
- especially, a demand for low skilled low wage labour is low because of the very high tax wedge for low skilled labour
- an unfavourable general business climate (high costs of doing business) – preventing the creation of new business entities and the growth of existing ones.
- the lack of a coordinated and regionally differentiated employment policy.

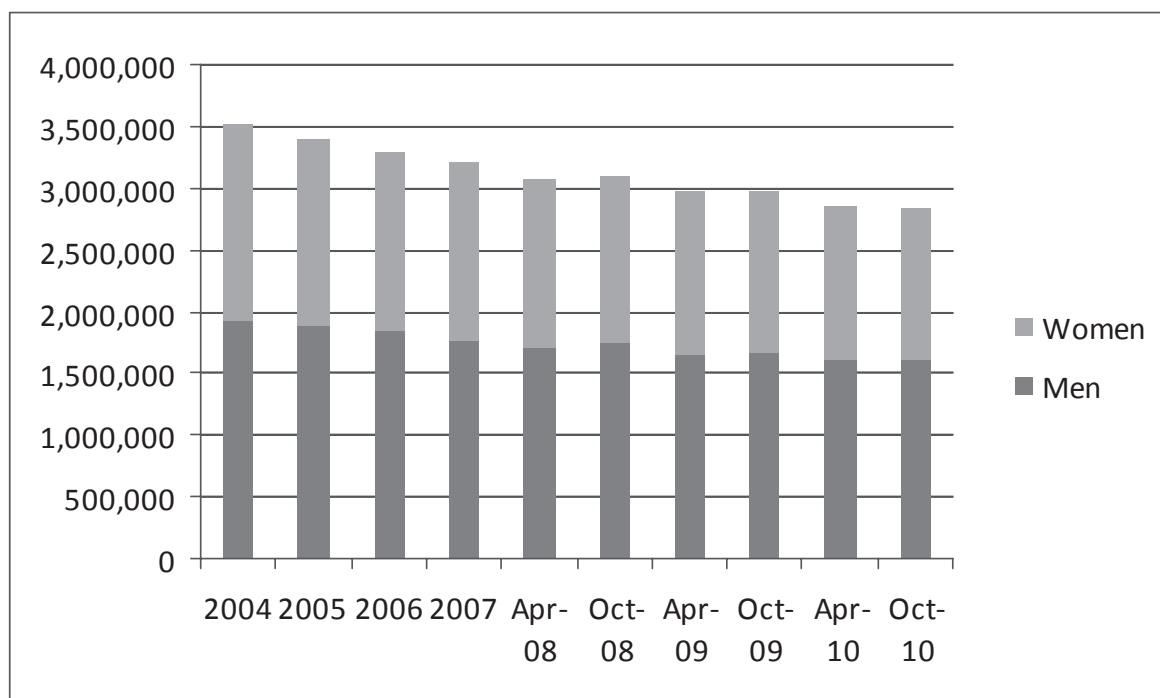
Labour market participation trends

Mainly as a result of negative natural growth and population aging, the working-age population declined by 4.5% between 2004 and 2010; thus, the estimated number of residents aged between 15 and 64 totalled 4,820,000 in 2010. The percentage drop in the number of active people is disproportionately higher than the drop in the activity rate; also, the drop in the activity rate of the adult population (15+) is greater than the drop in the activity rate of the working-age population (15–64). These findings are accounted for by demographic dynamics, i.e. a decline in the total adult population, as well as a greater decline in the working-age population, compared to the total adult population.

Between 2004 and 2010, the active population declined by as much as 19% and in October 2010, the active working-age population totalled 2,835,000, or only 58.8% of the total working-age population. This activity

rate of the Serbian working-age population is considerably below the EU27 average of October 2009 (71.3%). It is almost 10 percentage points below the 2004 level, owing to the fact that the active population decreased in number considerably faster than the working-age population. Such a low activity rate is primarily a result of the low activity rates of women, youth (aged 15–24) and the elderly (aged 55–64). Men's and women's activity rates declined at a mostly uniform pace in the period observed; yet, the gender gap in activity rates recorded a slight increase. On the other hand, the youth activity rate declined considerably, by almost one third, over the same period – from 37.8% in 2004 to 28.2% in 2010. This decline is a combined result of the secular trend of increase in participation of youth in education (and thus non-participation in the labour force) driven by positive factors such as increased returns to education, and of worsening of labour market chances for youth after the start of the crisis.

Graph 1. Active working age population in Serbia, 2004-2010



Source: LFS, Statistical Office of the Republic of Serbia (SORS) with Mehran's (2010) recalculations for 2004-2007⁹⁹

Pre- and post-crisis activity data do not show a significant trend break at any point after the eruption of the crisis. As is visible from Graph 1, the downward trend remained rather stable. The drop in the active population between 2004 and 2008 was slightly over 400,000 persons; in the following two years (October 2008 – October 2010) the active population diminished by a further 270,000 persons.

The size of the active population will be under further pressure in the next decade, since its main reservoir - the population of working age - will, according to a recent estimate, drop cumulatively by as much as around 400,000 persons, or by some 8%, as the large cohorts of baby boomers exit the working age population (Arandarenko and

Vujic, 2010). In this respect, measures aimed at increasing the active population of working age need to be considered and promoted, including, for example, an extension of the minimum retirement age, making work pay policies and possibly liberalisation of immigration procedures.

Employment trends 2004-2010

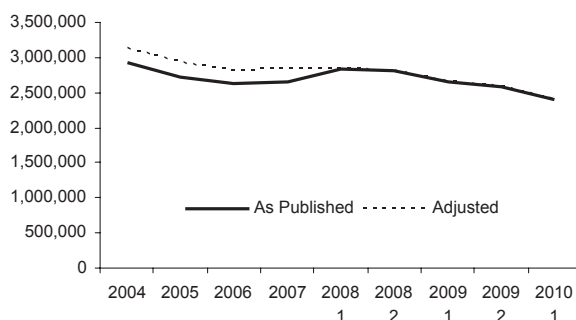
The total employed working-age population (aged 15–64) declined for the better part of the period observed and reached its lowest value of about 2,270,000 in October 2010, i.e. it declined by about 21% in comparison with the 2004 level. The employment rate in Serbia is very low: in 2009, it reached its record low point, since it had been monitored through the Labour Force Survey as, in that year, only one in two working-age persons worked. In 2010, the employment rate declined by a further 2.9 percentage points, which was the greatest yearly drop since the onset of the economic cri-

⁹⁹ Mehran (2010) performed 'backward' recalculations of the LFS data, for the period of 2004–2007, adjusting them for methodological changes that took place in 2008. Thanks to Mehran's recalculations, the LFS series for the entire period of 2004–2010 is now fully comparable, at least as regards the trends in the main labour market contingents. We will use these recalculated data for the period of 2004–2007 whenever possible throughout the text.

sis in 2008. This employment rate was considerably lower than the EU27 average (64.6% in 2009) and also lower than employment rates of some neighbouring countries (Croatia, Bulgaria and Romania). Serbia is still lagging far behind, in fact further and further behind the employment rate of 70% – the EU 2010 target set by the Lisbon Strategy in 2000.

It is useful to draw a comparison between the employment series based on the adjusted data presented here and the employment series based on the unadjusted data, as presented by the Statistical Office of the Republic of Serbia. Graph 2 shows the difference between these two series in the period of 2004–2007. The adjustment effects are clearly shown as the difference between the dashed line, indicating the adjusted series, and the solid line, indicating the unadjusted series. This gap, which indicates the extent to which employment data were underestimated in the period of 2004–2007, amounts to about 230,000 for 2004, 210,000 for 2005, 175,000 for 2006 and 180,000 for 2007.

Graph 2. Employment in Serbia, 2004-2010



Source: LFS, Statistical Office of the Republic of Serbia (SORS) with Mehran's (2010) recalculations for 2004-2007

The most interesting finding of this comparison is that, contrary to previous interpretations based on unadjusted data, in fact, no double dip of employment occurred - first presumably as a result of transition, and then another as a result of the economic crisis. It

means that conclusions on employment recovery and beginning of the reversal of transition-induced employment decline in 2007 and the first half of 2008 were based only on statistically registered, rather than "true" employment growth. What the adjusted, dashed line in Graph 2 shows is a virtually uninterrupted downward trend of employment, marking the entire decade starting in 2001.

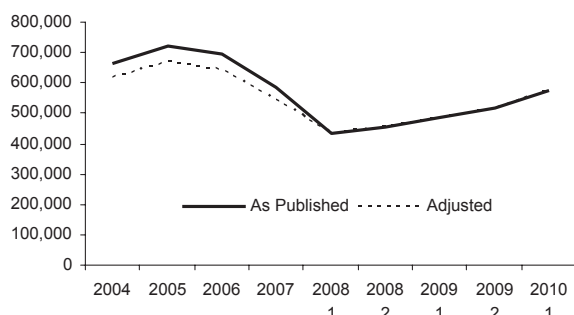
Still, unlike with the participation trend, in which there is slightly faster 'shedding' of the active population, but no visible trend break, looking at the employment dynamics before and after the start of the crisis, it is clear that there is a crisis-related break – while from 2005 to 2007 employment cumulatively dropped by less than 100,000 persons, only between October 2008 and April 2009 the drop was almost 200,000, and cumulative drop until October 2010 approached 400,000 persons. So we can conclude that a major part of this decline is due to the crisis, but other factors have certainly played a role – an autonomous drop in the working age population, and the impact of transition restructuring being possibly the most prominent.

Unemployment trends 2004-2010

Unemployment is very high in Serbia, as 20.0% of the active working-age population (aged 15–64), or about 566,000 people in absolute terms, were unemployed in October 2010. Unemployment, however, decreased by about 50,000 persons between 2004 and 2010, although the unemployment rate increased by 2.4 percentage points. In view of the large decrease in both employment and the employment rate over the observed period, it is clear that the decrease in unemployment and the slight increase in the unemployment rate are primarily due to a high flow of the labour force into inactivity. The decrease in unemployment in this period

is only partly due to new employment, since many discouraged workers became inactive. However, it should be highlighted that both unemployment and the unemployment rate have been on the increase continuously since 2008, largely as a result of the impact of the economic crisis on the labour market. As shown in Graph 3, there is indeed a trend breakpoint, no matter whether adjusted or unadjusted data are used. The Serbian unemployment rate is among the highest in the region and is considerably higher than the EU27 unemployment rate (9.4% in October 2009).

Graph 3. Unemployment in Serbia, 2004-2010



Source: Mehran, 2010

Women are more affected by unemployment, compared to men, in spite of their somewhat higher average level of education. Women's unemployment rate was higher than men's unemployment rate throughout the observed period; it is, however, interesting that the gap between women's and men's unemployment rates has shown a steady downward trend, which has further accelerated since the onset of the economic crisis. Higher employment protection within the public sector, which traditionally has an above-average proportion of women, is a probable explanation for these equalising tendencies. The difference between male and female unemployment rates decreased from 7.1 percentage points in October 2004 to 4.6 percentage points in 2008, and finally to 2.2 percentage points in 2010 – thus it could be

said that in this regard women fared relatively better than men during the crisis.

The unemployment rate decreases considerably with age – it is the highest for the youngest group (15–24). After decreasing between 2004 and 2007, the youth (15–24) unemployment rate started growing again, reaching 46.4% in 2010. The youth (15–24) unemployment rate in Serbia is more than twice as high as in the EU27, where it amounted to 20.4% in October 2009. Compared to adults, the labour market position of youth deteriorated during the crisis, and the gap between the unemployment rates of youth and of other working-age population widened in the period observed.

Impact of the economic crisis on the development of key labour market indicators

Employment decline since the onset of the crisis in October 2008 was dramatic. The number of employed working-age people (aged 15–64) fell by almost 380,000, or about 15%, between October 2008 and October 2010. This brought about a decline in the relevant employment rate (15–64) from 53.3% to 47.1%. Over the same period, the number of unemployed working-age people increased by almost 60,000, leading to the unemployment rate increase from 14.7% to 20.0%. It should be emphasised that the differences in key labour market indicators “before” and “after” the crisis reflect not only the impact of the crisis, but also the impact of autonomous economic factors – the most important being the transition and privatisation process, which is already at an advanced stage.

The significantly smaller increase in unemployment compared to the large decrease in employment suggests that many people who no longer worked moved into inactivity rather than unemployment. A large decrease in em-

ployment was recorded in the youngest age group (15–24), while, at the same time, this group's unemployment also decreased, confirming that, in a time of crisis, young people frequently opt to continue education as an alternative to seeking employment. Another group affected to an above-average extent are persons aged between 45 and 54. Unlike youth, in this group, employment decrease is accompanied by a relatively large unemployment increase. Causes of the decrease of employment differ for these two groups. A hypothesis may be formulated that the crisis impact is the most pronounced in the 15–24 age group and that it is manifested among youth both in termination or failure to extend fixed-term employment contracts and service contracts, and in the declining number of newly-created jobs suitable for young people. On the other hand, the 45–54 age group is affected by the completion of the privatisation process and by pre- and post-privatisation restructuring of enterprises, with a growing number of bankruptcies and liquidations, perhaps even more than by the crisis.

The cumulative loss of jobs between October 2008 and April 2010 was some 12.5%. Since the cumulative GDP loss from October 2008 to April 2010 was 4.7%, after which a modest GDP recovery started, it means that for each per cent of GDP lost during the recession, employment fell by as much as 2.6 per cent. In most other countries of Central and Eastern Europe, employment elasticity of growth since the start of the crisis has been in a more typical range between 0 and 1, mean-

ing that the relative drop in employment has been less severe than the drop in GDP.

Although the drop in formal non-agricultural employment as recorded by the establishment survey data was somewhat less severe, at around 7.5%, it was still much faster than the drop in GDP, supporting the idea that, apart from the crisis, there exist autonomous causes of this sharp drop in employment. On one hand, the remaining firms yet to be privatised tend to be the least attractive for investors and least successful; on the other hand, some recently privatised firms had been shedding labour after the expiration of a temporary ban on lay-offs. In some cases, new owners have miscalculated their chances on the market and become unable to finance their debts, opting for bankruptcy or, sometimes, voluntarily handing over their firms back to the Government.

Employment structure by sectors

Employment structure by main economic sectors usually provides sound indications of a country's development level. In developed countries, employment in services absolutely prevails, while employment in industry is modest, and employment in agriculture is, as a rule, marginal, typically with a single-digit percentage share in overall employment. In medium-developed countries, the relative shares of the three sectors are somewhat more balanced, while in underdeveloped countries, agriculture has the highest share in total employment.

Table 1 shows adjusted (upper panel) and unadjusted (lower panel) Labour Force Survey data on the employment figures in the three broad sectors – agriculture, industry and services.

Table 1. Employment and employment structure by broad sectors (agriculture, manufacturing, services), adjusted and unadjusted data, LFS

Adjusted

	2004	2005	2006	2007	2008	2009	2010
Agriculture	931,375	839,031	707,123	725,421	674,276	622,186	522,658
Industry	791,853	756,375	773,443	784,711	764,661	650,661	626,207
Services	1,439,580	1,346,895	1,324,279	1,325,789	1,359,043	1,317,341	1,233,439

Shares in total employment

Agriculture	29.45%	28.52%	25.21%	25.58%	24.10%	24.02%	21.94%
Industry	25.04%	25.71%	27.58%	27.67%	27.33%	25.12%	26.29%
Services	45.52%	45.78%	47.21%	46.75%	48.57%	50.86%	51.78%

Unadjusted

	2004	2005	2006	2007	2008	2009	2010
Agriculture	704,029	637,454	540,295	552,592	674,276	622,186	522,658
Industry	788,888	753,935	770,829	782,217	764,661	650,661	626,207
Services	1,437,931	1,342,023	1,319,570	1,320,927	1,359,043	1,317,341	1,233,439

Shares in total employment

Agriculture	24.02%	23.32%	20.54%	20.81%	24.10%	24.02%	21.94%
Industry	26.92%	27.58%	29.30%	29.45%	27.33%	25.12%	26.29%
Services	49.06%	49.10%	50.16%	49.74%	48.57%	50.86%	51.78%

Source: LFS, Statistical Office of the Republic of Serbia (SORS) with Mehran's (2010) recalculations for 2004-2007.

As seen from the comparison of adjusted and unadjusted data on the agriculture sector in Table 1, Mehran's recalculation indicates that agricultural employment was systematically underestimated, and therefore higher than was presented, until 2008. According to adjusted data, it was only in 2006 that industrial employment exceeded agricultural employment.

From a European perspective, the share of agricultural employment in total employment is exceptionally high in Serbia. Comparisons of employment structure by sectors with other European countries in 2010 show that only Romania has a somewhat higher share of agricultural employment in total employment than Serbia. In some central European countries, this share is surprisingly low – for instance, in Hungary and Slovakia, it is in the

single-digit range. On the other hand, the share of industrial employment is very low in Serbia in comparison with other European countries. As a result of these two extreme figures, the share of service sector employment in total employment in Serbia is only slightly below the European average.

According to adjusted Labour Force Survey data for the population over 15, the share of service sector employment in Serbia increased from 45.5% in 2004 to 51.8% in 2010, the share of industrial employment increased from 25.0% to 26.3% over the same period, whereas the share of agricultural employment decreased from 29.4% to 22.0%.

The increase in the share of service sector employment in total formal employment occurred as a result of two groups of factors.

Firstly, employment fell dramatically in agriculture (agribusiness complexes and cooperatives), manufacturing industry, mining and construction. Secondly, employment increased in public administration, education, communal and social services and real estate activities.

Development of formal and informal employment

Informal employment is linked to low income, poverty and vulnerability, as well as to a lower education level. Although it is the main source of labour market flexibility, providing at the same time an important safety net, it is still predominantly an involuntary employment of last resort. According to a study of the World Bank (2006), youth and the poorly educated account for an above-average share of the informal sector; work experience is much lower in the informal than in the formal sector; wages are lower in the informal than in the formal sector, especially when working hours are considered; the wage premium for those working in the formal sector, when other determinants are taken into account, is approximately 20%; finally, longitudinal analysis shows that flows between the informal and the formal sector are low (World Bank, 2006).

Krstić and Sanfey (2010) compared the LSMS data on informal employment at two points in time, in 2002 and 2007, which coincide with the early and mature transition stages in Serbia. They obtained a counter-intuitive result: the informal employment level had increased considerably in those five years, from 28% in 2002 to 35% of total employment in 2007. They found that informality was an important determinant of inequality in 2007, but not in 2002 – in other words, during transition, informal employment sank towards the bottom of wage distribution, in parallel with increasing in volume. Furthermore, the educational structure of informal workers

worsened relative to educational structure of formal ones. Still, the authors found that informal workers earned less than formal ones, even when other characteristics, such as education level, are controlled.

According to the Labour Force Survey, the share of informal employment in total employment of the adult population amounted to 23% in 2008, decreased to 21% in 2009, and dropped further to 19.6% in 2010. The finding on high informal job destruction in the time of crisis is both interesting and difficult to explain, as it is contrary to the standard assumption on counter-cyclical, or at least ambivalent character of informal employment. The explanation should point to the dual characteristics of the Serbian labour market, in which informal wage employees are the most vulnerable and the first to lose their jobs. At the same time, those marginally attached to the labour market, such as family helpers, who are by definition informal, have probably opted out of the labour force to a larger degree than other workers.

Main contingents of women and men in the labour market

Differences between men and women in aggregate labour market status indicators are a universal characteristic of labour market statistics worldwide. Male activity and employment rates are higher, and unemployment rates lower, compared to the corresponding indicators for women. These differences are present in Serbia as well; however, when put in international perspective, they are moderate, partly as a result of socialist heritage, which contributed significantly to improving the status of women in traditional Balkan societies.

A steady trend of decline in both male and female activity and employment rates is identified in the period of 2004–2010, along with considerable narrowing of the gender

gap in unemployment rates. The male activity rate declined by 8.9 percentage points, from 76.1% to 67.2% in the period observed, while the female activity rate declined slightly faster, by 10.8 percentage points, from 61.4% to 50.6%. Over the same period, the male employment rate declined by 10.7 percentage points, from 65.1% to 54.4%, while the female employment rate declined from 48.2% to 39.9%, i.e. by 8.3 percentage points. As a result of these trends, the difference between male and female unemployment rates decreased from 7.1 percentage points in 2004 (21.5% for women and 14.4% for men) to only 2.2 percentage points in 2010 (21.2% for women and 19.0% for men).

The presented data give rise to the conclusion that deterioration of the key labour market indicators during the transition period for which comparable data are available – from 2004 to 2010 – affected men and women in a differentiated, yet balanced manner. While for men the main net negative status transition was that from employment into unemployment, for women it was the transition from employment into inactivity. Still, the female employment rate declined by slightly fewer percentage points compared to the male employment rate, while female and male employment itself declined at a more uniform pace. It appears that, as regards labour market status changes, transition was, to a great extent, blind to gender differences, especially if status distinction is reduced to the employment/non-employment dichotomy. As regards wage gaps between women and men, there are strong indications that they decreased further from an already low initial level (e.g. Krstić, 2003) during the transition period in Serbia (e.g. Blunch, 2010).

Age groups in the labour market

The development of labour market indicators for the working-age population disaggregated by age groups between 2004 and 2010 reveals a common trend of declining activity and employment rates and growing unemployment rates for all cohorts grouped by age. These developments, marked by a uniformly negative sign, differ to a certain extent only in intensity.

Youth (aged 15–24) recorded a large drop in activity rate, from 37.9% in 2004 to 28.2% in 2010 and a somewhat smaller drop in employment rate, from 21.1% to 15.2% over the same period. The youth unemployment rate was consistently at an extremely high level: 44.2% in 2004 and 46.1% in 2010. Around 2007, favourable developments occurred for youth in the labour market, but were reversed by the onset of the economic crisis in late 2008 and the deterioration of the position of youth has accelerated since then (e.g. Arandarenko and Nojković, 2010).

The youth labour market position in Serbia rightly gives rise to great concerns and has therefore been the subject of numerous analyses and studies offering policy recommendations (e.g. Arandarenko, 2007, Krstić et al., 2010, etc.). Research into youth's school-to-work transition during 2009 indicates that the highly educated youth were more severely affected by the crisis compared to the poorly educated (Krstić, 2010). In October 2009, the average duration of transition doubled for youth with university degrees or above compared to April 2009 (from 9 months to 18.5 months), while it remained unchanged for youth with primary education (52–53 months).

Young adult members of the labour force (aged 25–34) also fared relatively worse during transition. In the period of 2004–2010, they lost the lead in terms of activity rate, which declined from 85.5% to 77.7%, to the middle age group, aged 35–54, which recorded a less

steep decline – from 84.0% to 78.1%. The employment rate decline for the 25–34 group was even steeper – from 67.4% in 2004 to 56.4% in 2010, thus further deepening the gap in comparison with the middle age group. Similarly, the unemployment rate of the 25–34 group increased from 21.1% in 2004 to 27.5% in 2010, which is more, in percentage points, than for any other age group.

Elderly working-age persons (55–64 group) also fared relatively worse between 2004 and 2010, recording an activity rate decline from 44.9% to 37.7%, an employment rate decline from 41.4% to 33.1% and an unemployment rate growth from 7.8% to 12.2%.

Therefore, while all age groups recorded deterioration in all characteristics, only the middle age group of the working-age population, aged between 35 and 54, showed a below-average decline, while all other age groups showed an above-average decline in labour market status characteristics.

Vulnerable groups in the labour market

Certain demographic groups, such as women, youth and the elderly in the working-age labour force, systematically show worse labour market indicators compared to the overall population. In addition to these broad groups, there are specific, narrower particularly vulnerable groups in the labour market, such as persons with disabilities, refugees and internally displaced persons, the Roma, etc. Naturally, vulnerability in the labour market is a relative concept, and vulnerable groups may include working-age population groups whose key labour market posi-

tion indicators (participation rate, employment rate, unemployment rate, share of vulnerable employment) are significantly less favourable than the corresponding averages for the overall working-age population.

On the basis of specific features of the Serbian labour market and prior research into poverty and living standards, we have recently (Krstić et al., 2010) classified the following working-age population groups as vulnerable: the Roma, refugees and internally displaced persons, persons with disabilities, the rural population in South-East Serbia, landless rural population, persons with low education levels, women, youth (aged 15–24) and the elderly (aged 50–64).

Preliminary analysis of the impact of the crisis on vulnerable groups (Krstić et al, 2010) concluded that the most pronounced negative impact was on youth, followed by the Roma and the landless rural population.

Multifaceted duality of the Serbian labour market

The labour market in Serbia nowadays seems to be more polarised and segmented than perhaps ever before. Dichotomies in the Serbian labour market include at least the following divisions: formal versus informal labour market; public versus private sector employment (including the remaining socially-owned sector); modern versus traditional labour market; wage employment versus self-employment, standard versus vulnerable employment; and paid versus unpaid work (Arandarenko, 2011). Their approximate relative sizes are shown in Table 2.

Table 2. Dichotomies in the Serbian labour market, around 2010

Employment structures	Proportion of total employment (population aged 15+)
Public – private	25:75
Formal – informal	80:20
Modern – traditional	65:35
Wage employment – self-employment	67:25*
Standard – vulnerable employment	67:33
Paid – unpaid work	92:8
*The total is lower than 100% since it does not include unpaid work of contributing family workers	

Source: SORS KILM database for 2010 and own estimates

Naturally, these structures also exist in other countries. In order to constitute elements of labour market duality, they must fulfil two important conditions – there must be serious obstacles to the transition from the “lower” to the “higher” employment segment and both market segments must be relevant, rather than marginal, in volume. While the second column of Table 2 clearly shows that the relevance condition is fulfilled by all dual structures, the first condition requires additional data.

The simplest operational test of the impenetrability of the “primary” labour market segments (public sector, formal employment, modern sector, wage employment, paid work) is their absolute net increase – if it is negligible, it suggests that vertical mobility in the labour market is very limited. A more sophisticated test would involve monitoring, at a minimum of two points in time, the movement of the same members of the workforce from one labour market status to another, and also from one market segment to another within the status of being employed. This requires individual panel data, available in the LFS from

2004 onwards. A detailed longitudinal analysis of the flow between informal and formal sectors in, for instance, 2004 and 2005 indicated that it was very low. Only 10.5% of informal wage earners in 2004 moved to formal employment in 2005 and these included a disproportionately high number of highly-educated persons. On the other hand, a vast majority of formal wage earners remained in the formal sector in the following year. Workers in the informal sector are mainly condemned to stay there (World Bank, 2006).

According to a synthesis which we have recently elaborated, advanced transition in Serbia is characterised by consolidation of the dual labour market (Arandarenko, 2010). The primary labour market is restricted to the entire public sector, modern services (such as banking and finance, information technology and marketing) and a few large privatised enterprises with foreign owners. The secondary labour market encompasses employees on “flexible” contracts (e.g. fixed-term employment contracts or service contracts), most private sector employees, the self-employed, those employed in traditional services, the best part of industry and agriculture. The primary labour market is characterised by job security, good working conditions and above-average wages, while jobs in the secondary labour market are, as a rule, precarious and poorly paid.

2.10.2 Employment Policies and Labour Market Institutions

There is a growing recognition among the public and policymakers that Serbia needs to change its growth model, from one based on demand, consumption and imports, to one based on supply, production and exports; from non-tradables to tradables. Public spending needs to be cut, with the consequent cuts or freezes in public sector employment and wages. If such a shift toward the ‘new growth

model' is indeed to be realised, it would require greater flexibility of formal and informal education to facilitate skill creation and skill restructuring, which would have to follow sectoral restructuring imminent for the transition to the new growth paradigm.

There are multiple problems related to labour market developments in Serbia that need to be addressed. The analysis of labour market trends presented in the previous section points to the decisive role of macroeconomic and structural demand side challenges to employment generation in Serbia. Transition- and privatisation-induced deindustrialisation and lack of investment in real sector have caused a general decline in demand for labour. Furthermore, the drop in demand was not uniform within the country – areas that suffered the most during the transition were underdeveloped regions relying on traditional manufacturing industries and skilled and semi-skilled workforce. This has led to further deepening of regional disparities in GDP and employment and in other labour market indicators.

Fiscal and taxation policy

The share of public spending in GDP in Serbia has been around 45% during the last decade, which is above average compared with even developed countries. But, unlike in developed countries, in Serbia higher public spending is not correlated with lower inequality. Looking at the structure of public spending, it becomes clear that it is very different, compared with that found in welfare states. While in welfare states public spending ensures relatively large transfers from wealthier to poorer social strata, its primary role in Serbia is to provide for an "adequate" living standard of the public sector employees and pensioners, as representatives of powerful and numerous interest groups. For example, while the total expenditures from public sources on educa-

tion, health and pensions expressed as a share in GDP were around or above the average values for OECD or EU countries, the share of social assistance expenditures and active and passive labour market programmes in GDP was less than half of the averages in OECD and EU (World Bank, 2009).

The government's economic and notably fiscal policy created incentives and directed resources in such a manner that made traditional and export oriented sectors of economy (industry and agriculture) feeble and economically unappealing. In contrast, the labour force and investors rightly saw the service sector as more attractive. This had two simultaneous negative effects—on both equity and efficiency. First, due to such an economic policy, the middle and upper classes improved their relative positions, whereas lower strata became disadvantaged. Second, the structure of the economy became imbalanced, being too much oriented to services. This had a negative bearing on development, growth, and employment, for the Serbian service sector firms, while strong in local markets, are weak to compete on international markets and, of course, their products are often not tradable at all. Serbia cannot excel in exporting services such as mobile phone, finance, trade, entertainment, and public administration. Yet, these are the companies that have made the largest profits over the past five years.

The tax policy was among the most important instruments of the new political elites with which to accomplish the redistribution after 2000. Although a progressive income tax rate was already a standard in the EU, the 2001 tax reform in Serbia introduced a flat income tax rate, without even a basic personal allowance. Flat income tax was coupled with high and effectively regressive social security contribution rates. Such an income tax system has been more harmful to the working poor and has favoured the well-off, because its

relative burden is higher for those with lower income than for those with higher incomes. For instance, the tax wedge for a worker who received only a third of the average wage until 2006 was 47%. In contrast, the tax wedge for a person making eight times average gross wage was only 34% (Arandarenko 2010).

Serbia introduced the flat wage tax in 2001, with a universal rate of 14 per cent. It was an extreme version of flat tax, without a personal allowance. Coupled with very high social security rates, and with a high minimum basic amount of social contributions, this regulation introduced regressivity in income taxation. Although a small personal allowance was introduced in 2007, in comparative perspective low-wage workers and firms employing them are still heavily taxed, while persons with higher salaries and firms employing them, such as banks, enjoy a comparative advantage.

The sum of contribution rates on gross wages stands at 35.8%, while the wage tax rate stands at merely 12%, with a small tax-free threshold. Consequently, social insurance contribution revenues account for over three quarters and wage tax revenues for less than a quarter of the overall labour tax revenues. The contribution rates are by definition strictly proportional to wages within the minimum to maximum base range—their redistributive effects on wages below and above that range are manifestly regressive.

A broader regional study (Arandarenko & Vukojević 2008) first showed that the labour taxation system in Serbia has quite a few regressive features, which, even if equity is disregarded, *inter alia* lowers the profitability of labour investment and increases the costs of labour of low skilled workers, discourages the formalisation of informal employment, has adverse effects on the competitiveness of labour-intensive branches and investments in them, and increases inter-sectoral

and inter-regional differences in wages, employment and development. The study also demonstrated that the share of the collected wage taxes in the total collected labour taxes is much smaller in Serbia and, consequently, that the share of the contributions is considerably greater than in other European countries, especially in comparison with the old EU member-states.

Over the past ten years, much of government's revenue has been collected from the sales tax and later on from the value added tax that was introduced in 2005. In 2010, the Finance Ministry announced it would implement yet another tax reform that would raise the VAT rate from 18% to 21 or 22%. The reform has been postponed but will most likely be implemented after the elections in 2012. This is again likely to deepen inequalities and increase poverty. The worse-off usually have to spend their whole income, while the better-off are inclined to save more of it. Therefore, with a higher income, the propensity to save rises, meaning that a higher VAT rate will hit the worse-off harder.

We are of opinion that the tax reform should take a very different course. A personal income tax reform with the introduction of progressive synthetic taxation ensuring greater equity is a necessary prerequisite to eliminate or at least alleviate the multiple negative effects of the current labour taxation system. In addition, the government should also slash the current level of fiscal burden on labour if it wants to improve international competitiveness and boost aggregate labour demand—an obvious priority for a country with an economically active population of three million and corporate private sector wage employment barely exceeding 900,000.

These first-rate economic goals will be achievable only once the parameters regarding social insurance contributions are changed in the context of the labour tax re-

form. These ideas have led us to formulating some preliminary guidelines for the comprehensive reform of labour taxation in Serbia. They include: first, an increase in the relative share of wage tax revenues and a decrease in the relative share of revenues from social insurance contributions in the overall labour tax revenue; second, reduction in the tax burden on labour of low-wage workers by raising the tax-free threshold and lowering the social insurance contribution rates in order to increase demand for less skilled labour, encourage investments in labour-intensive low wage sectors and cut the costs of formalising informal employment; third, increasing labour tax progressivity by introducing three progressive non-zero tax rates on labour income, with the top rate not exceeding 30%; fourth, cutting the overall combined social insurance contributions rate from 35.8% to a maximum of 30.0% of the gross wage.

The above measures would reduce the tax wedge on labour to a level below the European average, which would significantly boost international competitiveness and aggregate labour demand, but this would *ceteris paribus* entail lower labour tax revenues and an increase in fiscal deficit. In a static context, there are two basic complementary ways of keeping the proposed reform fiscally neutral: first, increasing revenues from capital income tax, and second, increasing revenues from value added tax. Increase in capital income tax rate would automatically improve equity, since this tax is paid mostly by the well-off. However, the overall increase in VAT revenues, if indeed necessary, ought to be achieved without hurting the poor. It could be done by differentiating the VAT tax rates by classes of products and services. At present, there are only two VAT rates in Serbia, a basic rate of 18% and a reduced rate of 8%, limited to staple goods and a few other items. Any increase in basic VAT rate, if indeed necessary

at all, should be asymmetrical, keeping the reduced rate unchanged, and possibly broadening the range of products taxed at that rate if their share in consumption of lower income groups is above average.

The simultaneous reconfiguration of income tax, contribution rates and the VAT rate would ensure that the overall macroeconomic and distributive effects of the comprehensive tax reform are positive. In the dynamic context, expanding the labour tax base by formalising informal employment and stepping up the growth of employment due to greater international competitiveness ought to help preserve the previous level of tax revenues notwithstanding the cuts in the average and total burden on labour.

Education policy

One of the most often emphasised weaknesses of Serbian education system is a clear lack of connection between 'school' and 'work'. This is one of main reasons why the transition from school to work is so difficult for young people in Serbia (e.g. Kogan, 2011). The scope for co-operation between education and the side of economy has been mapped out by various strategic documents and concrete proposals have been made on how to ensure it. However, institutional separation still exists and there are no joint bodies which would work together toward the reduction of skill mismatches.

Although in a country with very high unemployment it might seem that general labour supply potential wouldn't represent a significant bottleneck, this is not entirely true in Serbia. On the supply side, overall human capital endowment in the country could be characterised as modest at best, compared to other European countries – both in terms of formal educational achievements of the working age population, and in terms of qualifications and skills necessary for the

workplace. Table 3 presents the educational structure of active population (employed and unemployed). It shows a normal distribution of educational attainment, with around 20% of the active population having primary education or less, and the same percentage having post-secondary education or more, while the remaining 60% of the active population have secondary education.

Table 3. Educational attainment of the active population in Serbia, April 2011.

Total population 15-64		Share
No schooling	12,120	0.4
Less than primary	88,718	3.1
Primary education*	445,621	15.7
Secondary education	1,731,478	61.0
Tertiary education	562,610	19.8
Active	2,840,547	100.0
Total population 15+		Share
No schooling	20,642	0.7
Less than primary	139,856	4.8
Primary education*	460,078	15.7
Secondary education	1,740,428	59.4
Tertiary education	571,349	19.5
Active	2,932,353	100.0

Source: Labour Force Survey, SORS, April 2011

According to the recent assessment of Foreign Investors Council (FIC) in Serbia, the labour market and human capital remain among the biggest challenges, despite some pro-active measures taken by the government. The magnitude of the problem is such that much more needs to be done to reduce it. FIC's key recommendation is to improve the educational system and align it better with labour market needs.

According to ETF (European Training Foundation) (2010), the best advice is developing flexible skills across the board. It is recommended to avoid designing too narrow technical-vocational skills and instead broaden VET (vocational education and training)

curricula and open up training for a number of key competences in VET curricula. However, this is not only a curriculum issue but one that depends even more on how learning is organised in classrooms and workshops and hence on the continuous professional development of VET teachers.

The National Employment Strategy addresses the issue of better alignment between education and work with significant attention. *Educational challenge* is defined in the Strategy as the mismatch between labour demand and supply as well as the discrepancy between the qualifications and the vocational education system compared to the EU. The education challenge is closely associated with the demographic one. A considerably decreased labour force is expected, in the optimal growth scenario, to generate an average annual GDP growth of 5.8%, which in turn is expected to create over 400,000 new jobs. This calls for a substantial improvement of the available and future human capital and the way it is used. In the forthcoming period, the proportionally more numerous, less educated, older persons will leave the working age population and they will be replaced by less numerous, but better educated younger individuals. This will improve indicators related to the share of university educated persons in the population aged 25-54 and will decrease the number of unskilled workers in the working age population. This charges Serbia with developing the education system in such a way as to make life-long learning a reality.

The educational challenge is even more difficult to address when the delays in education reform are considered. If no strategy is developed and, more importantly, implemented for the long-term improvement of human capital to accompany the new opportunities for productive employment, Serbia will face the risk of experiencing an increasing brain drain.

According to the Strategy, the key challenges to be addressed by the education policy are: the lack of alignment of employment, education, science and technology development strategies; the lack of a legal framework governing adult education and the link between formal and informal education and training; and the absence of institutions to set and enforce quality standards. Cooperation and collaboration between the line ministries responsible for education and employment, but also other relevant institutions and social partners - such as employers' and workers' organisations, chambers of commerce, the Standing Conference of Towns and Municipalities - will be important if the above mentioned challenges are to be met.

Another crucial task for the forthcoming period is the adjustment of the national qualifications framework to the needs of the economy and the labour market. The development of a national qualifications framework will ease transfers to the EU education system and mobility in the enlarged labour market. The National Council on Higher Education has already adopted the text of the National Higher Education Qualifications Framework, and the Council for Vocational and Adult Education has agreed upon an Action Plan for the development of the NQF for secondary vocational education and vocational adult education.

The National Employment Strategy calls for the development of VET as it will lead to increased employability of the labour force, to the alignment of labour supply and demand, the matching of educational and training outcomes to labour market needs and better access to life-long learning, in particular for vulnerable groups. Modern VET in Serbia should be based on specific learning outcomes, e.g. vocational competencies the achievement of which represents the basic indicator of success of the education process. Educational programmes must be flexible in content,

length and learning methods to facilitate attendance and prevent dropout. The starting point should be the National Qualifications Framework (NQF), established through partnership of all stakeholders. Improving the quality of VET requires the introduction of a European quality insurance benchmark framework, which will allow progress to be followed through transparent quality criteria, benchmarks and indicators, and internal and external monitoring mechanisms uniformly applied to all VET providers (ETF, 2010).

Closely linked to the NQF is the national classification of occupations system. The current occupational titles are outdated and the qualifications are still based on the Nomenclature of Occupations that - despite technological changes and the emergence of new and disappearance of old occupations - has not been updated in almost 20 years. A national classification of occupations system is currently being developed in line with international occupation and education standards (ISCO and ISCED).

The reduction of the share of the population with no primary education requires the introduction of functional primary education programmes for adults, to enable individuals who dropped out of primary school to acquire functional literacy and basic qualifications either through labour market training or the education system in order to increase their competitiveness on the labour market. Additional education and training programmes offered as part of active labour market measures - additional training, re-training, functional primary education for adults and so on - should be expanded and targeted at the most vulnerable groups and individuals facing multiple vulnerability risks, primarily through building local capacities for education and training development. These education and training programmes should also be responsive to the needs of employers.

The development of tools to forecast labour market needs and monitor and evaluate education and training programmes should be among the government's top priorities. The identification of the skills required by the labour market is crucial to plan education policies and training programmes that respond to real needs.

The National Education Council prepared the initial concept of an overall education reform. The document is based on a lifelong learning perspective and aims at an integral approach to education reform, emphasising key competences and the role of teachers. It is planned to be built on broad partnership and consensus across the political parties. The Ministry of Education has confirmed the importance of initiating an overall education/lifelong learning development strategy, as it sees the need for substantial mid- and long-term modernisation across all sectors of education.

According to an analysis of education at the level of local self-government, there is no sufficiently developed awareness of the relationship of education and prosperity of the community. It is important that investment in education brings the expected effects for society as a whole. The goal should not be the acquisition of formal degrees as it is now, but competitiveness of knowledge and skills on the labour market. A recent workforce development review identified "closed mindsets to lifelong learning among SME and the general public" (USAID, 2009).

2.10.3 Active and Passive Labour Market Policies

Recent active labour market policies

In response to the crisis, active labour market policy programmes operated by the National Employment Service were restructured and refocused in April 2009. The available mod-

estly allocated budget for ALMPs remained officially unchanged (at some 35 million euros, or 0.1% of GDP), but was augmented by the same amount spent exclusively in the province of Vojvodina, which channelled a significant portion of its privatisation proceeds to ALMPs. In Spring 2009 the Government announced that the ALMP budget would be restructured to respond to the new reality – the bulk of funds was to be streamlined to only two measures, the new apprenticeship programme called 'First Chance' and the public works programme. These measures were aimed respectively at two groups of labour force members expected to be hardest hit by the crisis – youth without previous work experience and long-term unemployed facing a significant risk of poverty. The bulk of funds were streamlined to these two measures, largely at the expense of standard training and job subsidy programmes.

Training programmes

The First Chance

The First Chance programme is aimed at young people of up to 30 years of age with at least completed secondary school education, who have no relevant work experience. The scheme has slightly evolved since its inception in early 2009 and its current design is as follows. During the volunteer practice (3 months) they receive a monthly remuneration to the amount of approximately 100 euros. If an employer is satisfied with their work, they sign trainee employment contracts for a period of one year. The government pays around 200 euro per month to trainees with a university degree, 180 to trainees with a college degree (up to three-year post-secondary school qualifications), while trainees with secondary school education receive around 160 euros per month. 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.

It is important to note that the fall in total registered unemployment since mid-2009 was due to a sharp decline in youth unemployment, and this, in turn, coincided with the introduction of 'The First Chance'. It proved to be popular with both trainees and, unlike with previous schemes, employers, because in its original version there were no strings attached, in terms of employers being forced to keep the trainees once the apprenticeship was completed.

However, some of features of 'First Chance' have been called into question. First, the target group is skilled youth exclusively. While the scheme seems well suited to have lasting effects on the development of skills and practice of lifelong learning, its exclusive focus on well-educated young people makes it susceptible to deadweight and other undesirable effects. On the other hand, it clearly neglects the most disadvantaged youth – those without secondary education. Second, with few obligations for employers, and lack of monitoring and reporting, the subsidy scheme is vulnerable to abuse. Also, with no incentives for employers to build the skills and competences of apprentices for a longer employment relationship, the quality of on-the-job training provided is debatable. Finally, the scheme is expensive with growing total commitments as time passes, despite the slower pace of new entries into the scheme. Thus, the discontinuation of the scheme will be long and costly, most likely with growing deadweight effects. Indeed, the costs of the scheme are grow-

ing at a fast pace – from 1.3 billion dinars in 2009, to 1.8 billion dinars in 2010, and an allocated 2.6 billion dinars in 2011. The number of participants is increasing as well – from around 10,000 in 2009, to 16,000 in 2010 and to an expected 20,000 in 2011 – a significant number indeed, compared with the average size of an annual youth cohort of less than 70,000 persons. In any case, a detailed scientific evaluation of the programme is necessary in order to draw conclusions about its true net impact.

Other training programmes

Although training programmes outside the 'First Chance' are of modest size (RSD 195 million in 2009, and RSD 295 million in 2010), there were some crisis-related adjustments in this regard. In order to attract big investors, the Government of Serbia is trying to stimulate those that create a substantial number of new jobs with this measure. Examples of the on-the-job training schemes include the biggest on-going restructuring case in Serbia - Fiat Automobili Serbia, a joint venture between Italian Fiat and the Serbian Government, as well as a South-Korean investment by the Yura Corporation in nearby Raca which produces car parts and components.

Out of the total number of offered training schemes, on-the-job training scaled up in 2010, focusing especially on restructuring cases. The National Employment Service is co-financing training programmes needed by employers, covering training costs for 1,400 unemployed people (or slightly below 0.2% of the total number of registered unemployed) in accordance with employers' needs. The National Employment Service is covering the training costs amounting up to RSD 80,000 per unemployed person and later providing subsidies for employment upon termination of the training amounting to 3-months' minimum salary or up to six-months' minimum salary for persons with disabilities.

Job subsidy programmes

Public works programmes

Public works programmes are aimed at one of the two groups of labour force members expected to be hardest hit by the crisis – long-term unemployed facing the risk of poverty. The public works are carried out by employers appointed by the National Employment Service, based on public competition and can be organised in the fields of social, humanitarian, cultural and other activities as well as public infrastructure rehabilitation, environmental and nature maintenance and protection. The duration of public works is limited to 6 months. The public works programme covers salaries of public works' beneficiaries to the amount of the minimum wage, increased by 15%, 30% and 45% for persons with secondary, college and higher education respectively; travel costs; health and safety costs and costs of implementation up to 10% of the total cost (necessary equipment, etc.).

In response to the crisis, additional funds were allocated to public works in 2009, with the total amount of RSD 1.3 billion (15 million euros) dedicated to them, engaging slightly over 10,000 persons, which was twice as much as in 2008 and afterwards in 2010. Most of the projects were focused on environmental protection (around 40%), then humanitarian and social fields (some 25%), and public infrastructure (around 23%). The number of beneficiaries only partly follows this path, as roughly 49% were engaged in the environmental protection, while around 28% and 18% were respectively employed in the public infrastructure and social fields.

In 2009 and 2010, priorities were given to the projects based on several criteria:

- Employment of vulnerable categories such as long-term unemployed, users of MOP (material support for low-income households), persons with disabilities, older work-

ers, women, the Roma community, refugees and internally displaced persons, etc.;

- Underdeveloped and least developed municipalities, and municipalities where the unemployment rate is higher than the Serbian average;
- Level of co-financing from other sources;
- Possibility to get permanent employment;
- Duration of public work and the number of employed persons.

Public works programmes have been designed with the aim of providing immediate income relief for the most disadvantaged workers, typically in underdeveloped regions, by securing them a temporary subsidised formal job and hopefully improving their chances for non-subsidised employment after the expiration of the temporary job. The most recent process assessments, however, find that the scheme, as it is designed and implemented in Serbia, is much more successful in achieving the former than the latter objective. It is not surprising that the public works programme did not have a significant long-term effect on employment, similar to the experiences of other countries where it was introduced. For instance, only 19 persons found regular employment after the end of the public works programme in 2009. Partly because of these disappointing results, the financing of public works programmes was cut in 2010 to a 'standard' amount of RSD 700 million.

Job creation across sectors and regions

The National Employment Service has a long standing programme to support employers by awarding subsidies for opening new jobs. The subsidy for new jobs is granted to employers opening up to 50 new jobs. The amount of subsidy depends on the development level of the municipality in which people are employed and also could be related to relevant characteristics of the unemployed. Priority is

given to the underdeveloped municipalities and the persons that belong to the category of long-term unemployed, unemployed without qualifications or low-qualified workers, redundancy, persons with disabilities, the Roma community, internally displaced persons and returnees according to the readmission agreement. The total amount allocated in 2009 was RSD 400 million in 2009 and RSD 600 million in 2010, with 2,879 persons employed in 2009 and over 4,000 in 2010 (around 0.5 per cent of the total number of registered unemployed).

The new Employment Law contains an important new instrument for job creation at municipal and regional levels. Provided that they secure at least 51% of funds for job creation programmes, developed within local or provincial action plans for employment, they can count on matching funds from the central budget. In 2010, the interest of local communities was very modest, with only 10 out of over 160 participating, with total funds allocated from the central budget of around 700,000 euros. In 2011, however, as many as 122 municipalities and the province of Vojvodina have applied, with their own funding totalling almost 800 million dinars, and matching funds from the central budget of almost 900 million dinars.

Other job subsidy programmes

The Government of the Republic of Serbia, through the Ministry of Economy and Regional Development and the National Employment Service, have in 2010 introduced a small programme for self-employment of **disadvantaged youth**, aiming to support disadvantaged youth envisaged to receive self-employment assistance. Disadvantaged youth (young women and men with no work experience, limited skills base, disability, returnee or refugee status and ethnic belonging) between 15-30 years old are eligible to subsidies for

opening a new business to the amount of RSD 160,000. Moreover, they can also receive additional subsidies to the amount of RSD 80,000 if there is a need for adaptation of working space and/or RSD 80,000 if there is a need to specially equip the new working place.

Another scheme within this programme has introduced the support to the employers by awarding subsidies for employers that open new jobs for disadvantaged youth (15-30 years old). The employer can receive a monthly subsidy to the amount of RSD 25,000 for each disadvantaged young person employed (young women and men with no work experience, limited skills base, disability, returnee or refugee status and ethnic belonging). The amount is increased to RSD 32,500 per month in cases when disadvantaged youth have a higher level of education (maximum two-year post-secondary school qualifications).

The employers can also receive additional subsidies to the amount of RSD 80,000 if there is a need for adaptation of working space and/or RSD 80,000 per each person employed (limited to RSD 400,000) if there is a need to specially adapt the new working place. The subsidies are available to the employers for a period of 1-6 months, with the obligation to employ the person in the period twice as long as the period during which the subsidy is received. The interventions target disadvantaged youth in the districts of South Backa, Belgrade and Pcjinjski, which are highly affected by youth unemployment and poverty. In the course of the project implementation, two more districts were included, namely Pomoravski and Niski.

The new Law on professional rehabilitation and employment of persons with disabilities (2009) creates necessary preconditions for the work integration of **persons with disabilities**. It introduces a quota system as a means to increase employment of PWD and, at the same time, uses funds from penalties from

firms that do not meet the minimum requirements to finance professional rehabilitation. As of 2010, employers with 20-49 employees are obliged to have at least one PWD employed, and those with 50 and more employees are required to employ one PWD per each 50 additional workers. The expected inflow into the Budgetary fund (from penalties) in 2011 is over 2 billion dinars, which should serve to subsidise salaries of employed PWD as well as widening the scope of active programmes of the National Employment Service targeted specifically at persons with disabilities.

Passive labour market policies

The unemployment benefit system in Serbia is designed in the form of unemployment insurance and is therefore primarily financed through the contributions paid by employees and employers to the extra-budgetary unemployment insurance fund operated by the National Employment Service, which collects compulsory payroll taxes earmarked for unemployment benefits. Eligibility is consequently limited to job losers who have previously paid unemployment insurance contributions. Entitlement criteria according to the current Law on employment and unemployment insurance are the following:

The unemployment benefits are paid to the unemployed person

- a) For 3 months, if he/she has an insurance span from 1 to 5 years,
- b) For 6 months, if he/she has an insurance span from 5 to 15 years,
- c) For 9 months, if he/she has an insurance span from 15 to 25 years,
- d) For 12 months, if he/she has an insurance span longer than 25 years.

Exceptionally, the unemployed person is entitled to the unemployment benefit for 24 months, if he/she needs up to 2 years to ful-

fil the nearest retirement requirement, in accordance with regulations governing pension and disability insurance. The unemployment benefit replacement rate is 50% of the average wage of the unemployed person, but it cannot be higher than 160% or lower than 80% of the minimum wage determined pursuant to labour regulations for the month in which the unemployment benefit is paid.

It is important to note that the current Law was passed in May 2009, and that entitlement criteria and especially replacement rates are now less generous compared with the previous Law on employment and unemployment insurance, which was in force from 2003 to 2009. We will discuss these peculiar 'pro-cyclical' changes undertaken during the crisis in the following section.

The unemployment benefit system in Serbia comprises only of an unemployment insurance component – there is no a second-tier protection in the form of unemployment assistance, for example. On the other hand, able-bodied social assistance beneficiaries should prove that they are actively looking for a job in order to qualify for social assistance. However, the weakest link of the current arrangements is the low actual job search activity of unemployment benefit recipients, especially those who have enjoyed extremely generous rights stemming from the pre-2003 Law on employment and unemployment insurance.

The benefit system is rather rigid in allowing earned income of the low-paid or part time workers to be supplemented with benefits. According to the law, unemployment benefits shall be suspended for the duration of a contract on temporary and casual work. After the expiration of the contract the unemployed person will get back the entitlement to unemployment benefit payment for the remaining period for which the right to unemployment benefit is recognised if they register and file an application within 30 days.

A novel incentive was introduced in 2009, allowing a subsidy to benefit recipients who find a new job before the expiration of their entitlement, to the amount of 30% of their remaining net benefits. Overall, it could be said that the unemployment benefit system in Serbia is efficient as an insurance scheme for the unemployed; but much less so as an activation vehicle. We shall elaborate on this in the following sections.

2.10.4 Social Dialogue

Industrial relations and social dialogue in Serbia are regulated by the comprehensive body of labour legislation, the main pillar of which is the Labour Code, adopted in 2005. The Law on Socio-economic Council, the Law on Employment and Insurance in Case of Unemployment, the Health and Safety at Work Law, the Pension and Invalidity Law, the Law on Social Security Contributions, etc., all complete the legal context relevant for labour and industrial relations. Almost the entire body of labour legislation has been re-written since 2001 in order to support the transition to a market economy, but also with a view to complying with the relevant requirements and regulations of the European Union and standards of the International Labour Organisation.

The Labour Code provides detailed regulation regarding collective bargaining and trade unions and employers' organisations. Freedom of organisation is guaranteed by the law, and industrial relations actors are defined as autonomous, democratic and independent organisations formed with the aim of pursuing genuine goals of their respective members.

Historically, industrial relations in Serbia have been marked by top-to-bottom development. They were practically 'introduced' in 1990, when union pluralism was allowed and the traditional, communist-type Chamber of Commerce was given the additional role of an

employers' organisation. More recently, despite the consolidation of several nation-wide union confederations and employers' organisations, and despite the shift toward sectoral and company-level bargaining over pay and working conditions, the role of central-level bodies of industrial relations actors has remained the most important. This has been further pronounced by the dominant role of the government in tripartite negotiations, because due to diminishing union strength in recent years, as well as the existence of a single representative and a relatively weak employers' organisation, only the legitimacy of the government has remained undisputed. On the trade union scene, there is a secular trend of gradual weakening of overall union strength and density, especially in the private sector. After 2001 the only representative employers' organisation has been the Serbian Association of Employers, however it has been weakened by repeated internal strife and affairs.

In general, the asymmetry in power and legitimacy of the industrial relations actors makes it very difficult to achieve an efficient level of coordination of industrial relations. This is also why it has never been possible to conclude a full-blown tripartite agreement in the form of a social pact, despite the repeated attempts.

Over the last decade there has been a permanent trend of decline in trade union density. Paradoxically, the only factor which has significantly slowed down this trend has been the dramatic fall in private dependent employment. In other words, trade union density remains high in the public sector, and is low in the private corporate sector. It could be estimated at over 60% in the public sector, and below 20% in the private sector, and the overall density rate at around 35%. The two most relevant trade union confederations currently recognised as representative on the national level are the Confederation of Au-

onomous Trade Unions of Serbia (CATUS) and the United Branch Trade Unions "Nezavisnost", both participating at the Economic and Social Council at the national level. Apart from them the most prominent trade union confederations that are currently struggling for national representativeness status are the Association of Free and Independent Trade Unions (AFITU) and the Confederation of Free Trade Unions (CFTU), whose representativeness at the national level ought to be verified in the near future.

The main focus of trade unions in the past several years has been their internal struggle for representativeness at the national level. All trade unions have lost parts of their membership due to the lay-offs caused by the economic crises in the past three years. There is some evidence that the trade union scene is becoming more fragmented. According to one recent survey (CESID, 2010) around 30 per cent of total union members are outside of three largest confederations, which might signal the relative weakening of traditional confederations and rise of smaller, local unions. This development probably reflects dissatisfaction of employees at the local level with traditionally dominant confederations and their bureaucratised headquarters.

By far the most relevant employers' organisation (EO) in the recent period has been the Serbian Association of Employers, which still represents the only representative EO at the national level in Serbia and as such belongs to the International Organisation of Employers (IOE) as a full member. In mid-2008 the SAE suffered from internal turmoil, which resulted in the creation of the Association of Small and Medium-sized Entrepreneurs, formed by the breakaway members of the SAE. The ASME has repeatedly disputed the representativeness of the SAE and at the same time it has invested a lot of time and energy trying to obtain representative status itself, but those

attempts have fallen short of success. Just as in the case of trade unions, mutual recognition of representativeness among EOs has not even been attempted in the past, whereas the SAE has been investing efforts in retaining its representativeness. The legitimacy of SAE is disputed by its rivals but also sometimes by other social partners on the grounds that its representativeness is questionable. The legal requirement for representativeness at the national level is that an EO gathers at least 10% of all registered employers, and that these employers employ at least 15% of the total number of employees in the country.

The most important levels of collective bargaining for the setting of pay are different for the public and private sectors – in the public sector it is an intermediate (sectoral) level, while in the private sector the bargaining is largely decentralised (branch agreements exist only in two sectors) and are far from universal. Determination of minimum wage is fully centralised, within the Social and Economic Council, and the minimum wage is binding for the whole economy, including self-proprietorships and employees outside of the corporate sector.

The Social and Economic Council is in charge of negotiating and adopting General Collective Agreement and minimum wage determination every six months. Consensus is needed for the decision, otherwise the Minister of Labour decides unilaterally.

The actual mechanism of collective bargaining is still very centralised, whereby the heads of all the organisations represented at the Social and Economic Council (two trade unions, Serbian Association of Employers and the Ministry of Labour, due to the minister's role in providing an extended application) are heavily involved in collective bargaining, even though it mostly takes place on the branch level. Wage bargaining is still predominantly a matter of centralised talks between the rep-

representatives of the government and the trade unions, whereas wage bargaining in the private sector takes place mostly in larger, foreign-owned, privatised companies.

The national level of collective bargaining remains *de facto* the most important, despite the fact that General Collective Agreement concluded in 2008 has been of little practical importance and it actually expired in May 2011. Its importance stems from the institutions, such as the Social and Economic Council and, equally importantly, from the involvement of central bodies of national industrial relations actors in sectoral and sometimes even company level bargaining.

Sectoral level is the dominant form of collective bargaining in the public sector, which comprises the majority of union members and where the coverage of collective agreements is very high.

Company level is dominant in the private sector, which is characterised by low union density and low incidence of collective bargaining and collective agreements.

2.10.5 Conclusions and Recommendations

Overall, as shown in the overview of economic and labour market trends, the impact of the economic crisis in Serbia was rather mild in terms of output contraction, but very severe in terms of job losses. Clearly, job recovery needs to be given absolute priority in any comprehensive medium or long term economic growth development strategy.

However, the challenges that Serbia is facing on its road to economic recovery are multifaceted. If a standard strategic approach is adopted, giving priority to macroeconomic objectives such as price stability, reduction in fiscal deficit, low level of public debt, improved trade balance and balance of payments, etc., then there will be little space left to achieve the maximum possible increase in employ-

ment. This reasoning is based on past experience. After the decade in which, despite the substantial output growth, employment cumulatively fell by at least 800,000 persons, all efforts need to be made to reverse this trend.

We are therefore of opinion that employment growth, alongside with the reduction in absolute and relative poverty, need to be defined as an explicit final objective of any development strategy for the next decade. In practice, if there are several alternative strategies that bring about an acceptable level of growth, a clear emphasis should be given to a strategy that maximises these two final objectives – a maximum increase in employment and improved equality.

This is our main conceptual reservation regarding several otherwise sound recovery and reform proposals offered recently. The 'New growth model' is a generic expression for a number of proposals which have been developed since the start of the economic crisis in the autumn of 2008 and which seem to reflect a wide 'diagnostic' consensus of economic experts in Serbia. In essence, these proposals emphasise the need to make a decisive shift from a consumption-oriented, demand- and import-driven development paradigm to a new, savings- and investment-oriented, supply- and export-driven growth and development model, for all the reasons presented in the first part of this assessment. The most comprehensive proposal of this type was put forward within the 300 plus pages of the 'Serbian Post-Crisis Economic Growth and Development Model 2011-2020' (USAID et al, 2010), which was publicly presented and endorsed by the Prime Minister in September 2010. On the other hand, the much shorter proposal 'Serbia 2020', endorsed by the President of Serbia in November 2010, expands the essence of economic strategy developed within the 'Post-crisis model' in the fields of education, social and regional policy, etc.

Still, these proposals do not represent what they claim to be – that is, a full break with the development strategy up to now, because, among other compromises with the past that they make - they quite conventionally derive employment growth from the overall growth in output, although this time the economic growth will admittedly be based on healthier foundations. This ‘implicit’ employment strategy has failed in the past decade and may not be fully successful in the coming decade as well.

The post-crisis model (USAID et al, 2010), for example, is predominantly concerned with the level of public debt and with the balancing of fiscal and payment deficits. The stabilisation measures that are recommended by 2015 will most likely slow down job recovery because of an arbitrarily set goal not to allow public debt to surpass the level of 45% of GDP. Furthermore, the fiscal adjustment is expected to be achieved through cuts in public expenditure, but public revenues are planned to remain at the current elevated level, in order to reduce fiscal deficit to 1% of GDP by 2015. Since the current level of revenues is dependent on comparatively high taxes on labour, and especially on low-wage labour, this will slow down the pace of job creation necessary to return to the pre-crisis levels and advance toward the labour market goals set for 2020.

A truly alternative strategy would have to assess the preconditions for sustainable, employment-maximising and equity-improving economic growth, which would be able to secure convincing convergence toward the corresponding economic and social indicators in the European Union by 2020. True, such an approach is present in the Employment Strategy of Serbia by 2020, passed by the government in May 2011, but to make the full impact it should be integrated into the overall development strategy of Serbia.

Therefore, the two key questions which should be explicitly answered by any long term job recovery strategy should be: first, what employment policy is optimal for an employment-maximising economic growth? And second, what labour market institutions and their configurations are optimal for an employment-maximising economic growth?

Under employment policy we consider all sectoral economic policies which have an impact on employment – from fiscal, monetary and exchange rate policies, to industrial, foreign trade, regional, educational, SME development policy, etc. Under labour market institutions we consider all rules, regulations and policies which have a direct impact on the way the labour market operates, such as minimum wages; collective bargaining and social dialogue; labour taxation rules; working time regulations; employment protection regime; migration policy; retirement policy; social welfare policy; unemployment benefits; active labour market policy, etc.

In any case, social dialogue is more than one of the institutions or policies aiming to improve labour market indicators. Rather, it should be a very important encompassing instrument around which the consensus on other aspects of economic and employment policy is to be reached. For this to happen, measures to re-legitimise and empower unions and employer organisations are needed – from symbolic steps by the government, to the legal widening of the remit of social dialogue institutions.

In terms of employment policy measures, it is more important to create preconditions for revival in job creation, than to stick to the artificially created rigid rules, such as, for example, capping the allowed level of public debt, which in any case cannot be adhered to for more than a year or two. However, a moderate level of fiscal deficit should be tolerated only if it is achieved because of substantial par-

allel cuts in public expenditures and in public revenues. The cut in public revenues is important because it should provide a much needed release to businesses and recover investment sentiment. On the labour market institutions side, this cut would mean lower labour taxes, more specifically much lower tax wedges for low-wage workers and general cuts in social security contributions. Partial compensation for lost revenues should be achieved by introducing progressive income taxation of the Western European type, which would in Serbia have an added value, serving as an effective tax-based incomes policy, against the excessive wage claims in the public sector.

Other possible improvements in employment policy and labour market institutions should be carefully explored and discussed among the social partners. As topics for further consideration and discussions, they should at least include the following ideas:

We recommend a shift in 'pattern' collective bargaining from public to private sector, in order to support wage bargaining and competitiveness of the national economy at the same time. While public sector unions are very strong in Serbia, their private sector counterparts are quite weak. Therefore, the dynamics of wage negotiations is dictated by the bargaining in public sector. This has resulted in the increase in public sector wage advantage, as presented in the second part of this report. Comparative evidence shows that countries with very strong unions could achieve and sustain a very high level of international competitiveness, provided that the bargaining process is dominated by negotiations in export industries. In Serbia the way forward, given the weakness of industrial unions, would be to create centralised coordination of wage bargaining with the aim of improving the competitiveness of export industries, while at the same time making them more attractive for workers.

It would be advisable to secure gradual reallocation of overall funds for the labour market policy from passive policies (unemployment benefits) to active labour market programmes. The conditions for this shift have been met after the passage of the new Employment law in 2009, and its realisation started in 2011, since the funds for the ALMP increased from 3.7 billion in 2010 to 6.5 billion in 2011. The target, however, should be the spending of some 0.5 per cent of GDP on active labour market programmes by 2015, which needs to be done within a general tightening of the budget.

While it is important to have large scale active labour market programmes supporting global employment recovery as long as the job crisis lasts, there is also a need to gradually shift the emphasis to active labour market measures, targeting specifically the most vulnerable groups among the unemployed. For example, the general youth large-scale programme 'The First Chance' should be gradually phased out, while the measures aimed at youth with multiple factors of vulnerability (currently served only by internationally supported pilot programmes) should be phased in and expanded.

Introduction and promotion of more flexible forms of employment, in order to lower the duality in the labour market and to increase labour supply with part-timers and at-home workers. These forms could take the form of mini and midi jobs with flexible working time arrangements and more favourable tax treatment.

A more liberal immigration policy might become necessary in view of the dramatic reduction of potential labour force by 8% by 2020. Although this topic could be considered controversial or, at least, premature, given the low employment and high unemployment among the resident population, it is likely that workforce shortages might occur

in some expanding sectors. Having in place a more liberal immigration law is a way to offset this potential bottleneck.

Changes in education and training policy are necessary in order to prevent the potentially growing skills gap, which is now hidden because of general suppression of employment and investment. These are the issues requiring a high level of coordination between the public sector and industry, which have been lacking thus far. Creating a national forum on the comprehensive reform in education and training, preferably within the Social and Economic Council, should be the first necessary step.

Increasing incentives to work and creating disincentives to be inactive is crucial in

order to improve activity rate and induce members of the working age population to choose to work. Measures aimed at increasing incentives to work would include, for low wage earners, raising the relative level of net minimum wage by increasing the zero income tax bracket to the full amount of the minimum wage, as well as introducing in-work benefits. In general, it would be important to significantly reduce the current level of the labour tax wedge for those making an average wage and less. Measures creating disincentives for inactivity include, at least, increasing taxes on non-labour income, restricting early retirement and introducing lower replacement ratios for early retirees.

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3. Regional Synthesis

Employment Policies in South East Europe - Common Challenges and Different Scenarios

Lyuben Tomev

The paper includes analysis of the labour market and employment policies in South-East European countries. Although in the development of most of the countries since the 1990s there are many similarities, because of similarities in historical and cultural development, there are some visible differences. Bulgaria and Romania succeeded in preparing for accession to the EU and entering the Union at the beginning of 2007, and Croatia has already finished negotiations and signed the accession treaty, and will receive the status of an EU-member state in the middle of 2013. Most of the other countries have been either recognised as candidates (Macedonia and Montenegro) or potential candidates, but none of them has started negotiations. In most of the countries radical changes have occurred in the last 20 years, including in political transformations, economical restructuring and privatisation, as well as changes in the legislation, in the social and labour market policies and in institutions. In many of the countries phenomena like recession, employment reduction, budget deficits and increasing of poverty can be observed. They are either consequences of the still unfinished transformations, or are caused by the global economic and financial crisis, or both of these reasons have provoked them.

3.1 The Labour Market Situation (Developments of the Last Few Years: 2006 – 2011)

In most of the countries the labour participation rate (the share of economically active population) is similar to the labour participation rate in many EU-member states (mainly in South Europe and Central Eastern Europe). (See table 1)

Table 1 (Data from the World Bank-2011 and from the national reports)

Labour participation rate (age 15+) in the SEE, 2009 (%)

Countries	2009	2008	2007	2006
Albania	60	60	59	60
Bosnia and Herzegovina	61			
Bulgaria	53	54	56	55
Croatia	53	53	53	53
Kosovo				
Macedonia	54	55	54	54
Moldova	49	49	49	50
Montenegro	60.3			
Romania	55	55	55	52
Serbia	60.03			

The comparative data indicates that in 2009 the level of economic activity in some of the Central East European countries was similar - it varied from 50 to 63%: 59% in Slovenia, 54% in Poland, 56% in the Czech Republic and the same was true in Mediterranean and South European countries: 54% in Greece, 49% in Malta, 62% in Cyprus and 63% in Portugal.

The labour market in most of the countries in South-East Europe was affected by the continuing restructuring and also by investment activity (especially in 2006 -2008), which brought to some changes in the structures of employment (especially in the private-public employment balance, in sectoral trends, in the forms of employment and also in the structures according to age and gender). However, the beginning of the crisis since 2008, which is currently continuing with a new stage, stopped or slowed down some of the processes (investments and active foreign trade) in some of the countries and also provoked a reduction of many jobs, mainly in industry.

The crisis, however, more greatly affected the labour markets of the countries which are either EU-member states, or are much closer to EU-accession, than the countries which have just started their preparation for the negotiations for accession. The labour markets of the last group of countries have already been hard hit because of other reasons, like the consequences of wars and other, domestic clashes, by the large proportion of emigration and human traffic, by the informal economy, by the late start of the active foreign investment process and by the lack of domestic investments, etc. For example

*“for about 20 years Macedonia had weak economic performance with low GDP growth rates, low level of investments, etc. Today Macedonia has almost the same level of GDP as it was 20 years ago.”*¹⁰⁰ In Bosnia and Herzegovina, the main generator for new job positions *“has lain for the last five years in the growth of the public sector in the period 2006-2010 and private sector before the 2008 crisis.”*¹⁰¹ However, even in the countries which are much closer to EU accession,

like Croatia, the crisis has strongly affected the workforce with any kind of education and qualification, which does not happen during a time of the growth.

3.2 Main Factors for Labour Market Development

The main factors for the labour market development in the last few years could be categorised into two groups : ***fundamental and situational*** (based on the Bulgarian report)¹⁰² Among the **fundamental** factors one could mention the **demographic processes, the structures of the labour markets, and the informal (grey) economy share** in the countries of the regions, which is particularly high. Also, **education policies and practices** could be added for most of the countries.

Demographic processes

In most of the countries (with the exception of Kosovo and Albania) there is a real demographic crisis, whose main components are the aging of the population and the decreasing of the number and share of the population of working age (15-64). Also, in almost all of the countries, such demographic problems have been caused not only by the low rate of birth and high mortality rate, but mainly by the high rate of emigration since the 1990s, which is still continuing. In the countries where the average age of the population is much lower (Albania and Kosovo) there are also emigration problems, but the difficulties and issues of the youth employment and unemployment are more severe, as well as the problems of the serious migration inside the country and radical urbanisation, especially for the capitals (Albania).

¹⁰⁰ See Employment Policies in South East Europe (case of Macedonia), V. Stojanova, T. Milchevski

¹⁰¹ See Employment Policies in South East Europe - Common challenges and different scenarios. Bosnia and Herzegovina. D.Miljevic

¹⁰² See Employment Policies in South East Europe. The case of Bulgaria. L. Tomev.

Education

In all of the national papers attention is paid to the worsening of the education level, mainly on the worsening of the link between the education and practice and the labour market, although, since the beginning of the new millennium many new education policies have been implemented. *"The education system is not compatible with the needs of the labour market and the real economy."*¹⁰³

Structures of the labour market

In many countries the disparities of the labour supply and demand are either growing or are sustainable. As for Bulgaria being mentioned, the labour market is *"with relative shares of discouraged workers, long-term unemployed, and contingents accumulating several vulnerability factors, which results in low competitiveness and adaptability of the labour force to the changing labour market"*¹⁰⁴. For Macedonia the mentality of the people was also debated: *"many of the people in Macedonia are trapped in the idea that the government is what should provide them with a job, and therefore lack a proactive attitude"*¹⁰⁵. This conclusion could be valid also for most of the other countries, although market relations already have reached a strong advantage.

Informal economy

The informal economy is a characteristic for all the countries in the region (although it is not mentioned as important in the some of the reports), but its influence is different on the labour market of the various countries. *"Despite*

*all mantras and interventions aimed at reducing the grey economy and grey employment in particular, they have remained the most sustainable labour market segment for the past 20 years"*¹⁰⁶. For some countries the share of the informal employment is quite large, as for Kosovo, for example, it is difficult to define the share of the legal private employment because of the influence of informal employment. However, the share of the informal economy and the informal employment could only be presumed on the basis of the data about the legal economy and employment.

The situational factors include the influx of foreign direct investments (FDI) and of domestic investments, the influence of the global financial and economic crisis, and the role of the EU in the countries from the region, including both accession and pre-accession processes.

FDI and domestic investments

The role of investment processes is not commented on too much in most of the papers, but it seems that in many countries the share of the FDI increased, at least until 2008-2009. For some countries like Moldova, Kosovo and even Romania the role of remittances of the working population abroad is very important, although for Romania such an influence declined in 2009-2010. In some of the countries also the share of some domestic public and private investments increased, especially in the areas of industry and energy production (Albania).

The role of the crisis

This is underlined for some of the countries, both for countries like Bulgaria and Romania (EU member states) and Croatia (which has finished the negotiations), on the one hand,

¹⁰³ See Employment Policies in South East Europe. Common challenges and different scenarios. (Moldova). V. Antonov

¹⁰⁴ See Employment Policies in South East Europe. The case of Bulgaria. L. Tomev.

¹⁰⁵ See Employment Policies in South East Europe (case of Macedonia), V. Stojanova, T. Milchevski

¹⁰⁶ See Employment Policies in South East Europe. The case of Bulgaria. L. Tomev.

and for countries like Serbia, which is still in preparation for negotiations. For the others the crisis is not commented on as having very much of an effect, either because their economy has for a long time been not as strongly linked to the economies of EU member states and to the global economy (Kosovo and Macedonia), or because the structures of their economies have their specific sustainability and the influence of such a crisis could not cause many changes (Montenegro, Albania and, to a certain degree, Moldova), or because of the influence of both factors.

Relations with the EU

These are underlined in many of the papers, but mostly in the papers of the countries which still are in preparation for the negotiations. However, although this preparation has already taken too long, the EU influence could only be evaluated as positive. The status of the countries as candidates and potential candidates for EU membership usually promotes the investment process, mainly the FDI, but also the private domestic investment could give access to the EU pre-accession funds.

3.3 Main Trends in the Employment Rate

According to the data from Eurostat, in most of the countries there are trends of stabilisation or growth of the employment in the beginning of the new millennium, which continue up to the beginning of the crisis of 2008-2009 (with the exception of Macedonia and Moldova). Since 2008-2009 in most of the countries there has been a decline in the employment level in total and especially for the population aged 15-64. In 2009 (the last year, for which there are enough data for comparison), the level of employment for the working age population (15-64 years) in most of the countries is between 40% and 55%. In 2010, in the countries for

which there are available data, the level of employment varies between 25% for Kosovo and 59.7% for Bulgaria. During the years 2006 - 2010 the employment level (for the age 15-64 years), which was above 50% could be observed in half of the countries (Bulgaria, Romania, Croatia, Serbia and Albania). In Montenegro the share of employees is around 50% (50.8% in 2008 and 48.7% in 2009). In Bosnia and Herzegovina, Macedonia and Moldova the level is between 40% and 50%, and in Kosovo it varies from 25% to 29% of the working age population. (See Table 2.)

Table 2 (*Data from the World Bank-2011, Eurostat-2011 and national reports*)

Countries	Employment rates 15-64 years (%)				
	2010	2009	2008	2007	2006
Albania		53.4	53.76	56.43	46.23
Bosnia and Herzegovina		40.1	40.7	36.8	35.0
Bulgaria	59.7	62.6	64.0	61.7	58.6
Croatia	54.0	56.6	57.8	57.1	55.6
Kosovo	25.0	26.1	24.1	26.2	28.7
Macedonia	43.5	43.3	41.9	40.7	39.6
Moldova					
Montenegro	41.6	48.7	50.8	49.2	41.0
Romania	58.8	58.6	59.0	58.8	58.8
Serbia		50.39	53.7	59.5	49.85

However, all the countries have an average employment rate below the level of the EU-27 (64.1% in 2010, 64.5% in 2009). In many of the countries the employment rate declined rapidly due to the influence of the crisis and restructuring, mainly because of the reduction of employment in industry.

The comparatively (to the average for the EU) low employment rate in Croatia is mainly based on full-time employment, as in this country the part-time employment and other atypical employment are used not as often as in most of the EU-member states. The same is valid for Bulgaria and Romania, where the part-time employment is also rarely used.

Employment trends by sectors and structures in employment

Public and private owned sectors

In most of the countries employment in the private sectors already dominates. There is a positive trend showing that in five years the number of employed in the private sector has increased by around 120,000 workers (Macedonia), which is an increase of roughly 30%. The same is also valid for Montenegro and Serbia.

However, in some of the countries which are still reviving their economies the level of employment in the public sectors, and in the civil service in particular, is very high (Kosovo). In 2010 a total of 70,326 (38% females) people were employed in the public sector. The public employment offices offered 30-40% new jobs which are different according to the regions (Albania). According to the last employment trend data for Bosnia and Herzegovina, new job positions have been opened mainly in the public sector or in the private service sector.¹⁰⁷

Various sectors

There are trends of growth of employment in services in most of the countries (higher for Bulgaria, Montenegro, Kosovo and Moldova): *"In Montenegro service employment is too high. On the other side, employment in the services sector had a share of 60% in 2001 and it increased to 73.9% in 2010 and 75.4% in Q2-2011. This growth of employment in services is mainly a result of the development of tourism. Also, Montenegro is the country with the highest employment in the sector of wholesale and retail trade."*¹⁰⁸

"In Albania the service sectors are growing. The increase of offers in transport sector,

*telecommunication sector and service sector is noticed. It is also noticed that there is a fall in the number of offers in the building sector".*¹⁰⁹

*"Data from 2007 indicate that agriculture is no longer the main sector of employment. It has a participation rate only of 32.8%, being replaced by the service sector with 48.5%, while 12.7% are in industry, followed by the construction sector with 6.1%."*¹¹⁰

For Serbia also the service employment is six times below the average for the EU, and for Macedonia it is also increasing.

In some countries the level of employment in agriculture is still high - Romania (29.1% in 2009), Croatia (13.9%) and Macedonia (27%). *"Agricultural employment was systematically underestimated, and therefore higher than was presented until 2008. According to adjusted data, it was only in 2006 that industrial employment exceeded agricultural employment."* (Serbia)¹¹¹ This is much higher than the average rate for the EU and for most of the EU-member states. Even in some central EU-member states the agricultural employment is surprisingly low. But at the same time agriculture could absorb the unemployment, caused by the restructuring in industries.

Industrial employment declined in some countries, mostly affected by the crisis, or where the industries are undergoing rapid restructuring (Bulgaria, Croatia and Romania). In the other countries, the share of industrial employment has been relatively low for a long time (Serbia, Macedonia, Albania, Kosovo and Moldova), but during recent years it has increased (Macedonia and Albania)

¹⁰⁷ See Employment policies and South East Europe - Common challenges and different scenarios. Bosnia and Herzegovina. D.Miljevic

¹⁰⁸ See Employment policies (Montenegro)

¹⁰⁹ See Employment policies in South East Europe (Albania)

¹¹⁰ See Employment Policies in South East Europe. Common challenges and different scenarios. (Moldova).V.Antonov

¹¹¹ See Employment Policies in South East Europe. Common challenges and different scenarios. (Serbia) M. Arandarenko

Regional differences

In the countries where the employment level in agriculture is comparatively high, like Croatia and Romania, the level of employment in rural areas is also comparatively high. At the same time in the countries with a former high level of employment in agriculture, like Moldova, the level of rural employment decreased to 5% for 2010, because of a decrease in the employment in agriculture, and emigration.

In many countries regional disproportions in the employment level are mentioned (Croatia, Bulgaria and Albania). The differences in the level of regional employment correspond to the regional development, the structures of the population and migration processes.

Employment structures according to gender and age

For the whole region female employment is comparatively lower than male employment, but there are some peculiarities. In Croatia an extremely low employment rate for men is mentioned (compared to the EU-27). In Moldova rural women participate more than men on the labour market, although women's participation in vulnerable employment is comparatively high.

In all the countries the youth activity rate is low and declining. This decline, however, cannot be always explained with the increasing of the education activities, but mostly with the worsening of the labour market chances for youth after the start of the crisis or with sustained lack of chances for youth on the labour market. Also, the disparities between the qualification level and skills which most of the young persons obtain and the labour market requirements are among the main reasons for the lack of chances of the young work force.

Professional and qualification structures

These characteristics cannot easily be summarised, as the economic structures in the separate countries are different. For Bulgaria, the breakdown by occupation and qualification reveals that the employment drop is the highest for the professions that do not require special qualifications (minus 35.6%). This is a natural development – the first to be laid off in a crisis situation are low-skilled workers. The decline in the group of qualified manufacturing workers and machine workers is considerably lower (about minus 20%), while employment among professionals has increased by more than 11%. In Croatia, where there was very large share of the skilled manual workers, their share declined because of the crisis influence on the sectors requiring such occupations. In Moldova it seems that the share of the low-skilled workers increased, because for them it is easier to find jobs, whilst for the highly-qualified workforce finding a job is more difficult and the highly-qualified jobs are also low paid.

The educational level of the labour force in BiH is very low because only 13.3% of all the labour force has higher education. The problem is even worse if we know that every fifth person in BiH has only primary education or does not have any at all. It is encouraging, however, that in period 2008-2010 the percentage of the workforce with primary education slowly decreased.

3.4 Main Trends in the Unemployment Rate

The unemployment level indicates trends corresponding with the trends of employment. For some of the countries there are trends of decline in 2005-2008, and then of increase in their levels again, because of the influence of the crisis. For some others, like Macedonia and Kosovo the trends are different - in Kosovo the unemployment level increased in

2006-2008, and then in 2009 there was some decline, and in Macedonia the decline did not stop in 2006-2009. In both countries the level of unemployment is enormously high.

In 2009 the levels of unemployment were quite different for various countries – it varied between 6.4% (for Moldova) and 45.4% (for Kosovo). (See table 3).

Table 3 (Data from the World Bank 2011; Eurostat-2011 and national reports)

Country	Unemployment rate (%)				
	2010	2009	2008	2007	2006
Albania		12.9	12.7		13.8
Bosnia and Herzegovina	27.2	24.1	23.4	29.0	31.1
Bulgaria	10.2	6.8	5.6	6.9	9.0
Croatia	11.8	9.1	8.4	9.0	11.1
Kosovo	48.0	45.4	47.5	46.3	44.9
Macedonia	30.9	32.2	33.7	36.0	36.0
Moldova	7.4	6.4	4.0	5.1	7.4
Montenegro	12.1		10.6		
Romania	7.3	6.9	5.8	6.4	7.3
Serbia		16.6	13.6	18.1	20.8

In some countries, like Bulgaria and Croatia, with an unemployment level below 10% during 2007-2010, in 2010 the level already exceeded the threshold of 10%.

Regional disproportions

Compared to the employment levels, there are also disproportions in the unemployment levels (Albania, Croatia, Bulgaria and others). This depends on the crisis influence and restructuring process.

The same is valid for urban and rural unemployment in most of the countries, but for some of them there are exceptions. As for Kosovo, there is a large disproportion between urban and rural areas (very high rural unemployment), for Moldova rural unemployment is lower than urban unemployment. The latter situation is because of emigration and domestic migration of the rural population in the country.

For Bosnia and Herzegovina there could be particular regional differences, because of the specific governing state system of the country. However, there are not such high differences either in the level of unemployment, or in the trends of its increasing between the two main parts of the country – the Federation Bosnia and Herzegovina and Republica Srpska, as there are between the cantons and regions. In the biggest cities and their surrounding regions, like Banja Luka and Sarajevo, the unemployment level is lower (although it is also very high, respectively: 28.8% and 36.3%) than in the other regions in the two main parts of the country, where its level varied from 41% to 55% in 2010.

Long-term unemployment is also typical for the region, usually concerning the low-qualified persons and/or those with qualifications and skills for which there is already no market demand. In Kosovo the share of the long-term unemployment is very high (63%), but most of the unemployed people (90%) have never worked before. This indicates that the majority of those unemployed are first time entrants to the labour market.

However, for Macedonia there is a comment that about ¼ of the registered unemployment is not real, practically these persons who are usually employed in the informal economy.

In Bulgaria there is a large share of discouraged people (24%), who do not register with the labour offices for a number of reasons. For some of them it could be presumed that they are also involved in some kind of informal activity.

Quality of the unemployed persons

In most cases a large number of those unemployed either have a low level of education and qualifications, or have skills already not required on the labour market. There is also a skills mismatch between supply and demand, even for some of the people with better skills. For some

countries it is mentioned, that *“unemployed persons do not develop their skills, even if there is access to training courses offered by the employment agencies. Often those available on the labour market have a low level of training and practice.”* (Moldova) ¹¹²

Structure according to gender and age

In most countries women are more affected by unemployment than the men, but in some countries, like Bulgaria in 2008-2009, there were either approximately equal rates for both groups, or an even higher level of unemployment for men.

There are trends of social exclusion of women from rural areas and some ethnic groups (Macedonia), which is also valid for other countries, like Kosovo, but in Moldova rural women are more compatible on the labour market.

Many more problems can be observed regarding youth unemployment. Its rate is very high for countries like Kosovo and Albania, as they have a comparatively younger population than the other countries from the region. In Bosnia and Herzegovina youth unemployment also exceeded 50% in 2007 and in 2010, and in 2006 it was over 60%. Also, for most of the countries the level of youth unemployment (15-24 years) is more than 15%, and in some cases above 30%. (Serbia and Montenegro).

“The consequences of unemployment and the lack of employment opportunities for young people lead to social exclusion and poverty, and to low-productive activities in the informal economy.” (Croatia)¹¹³ *“In the majority of countries a lower level of education is seen as contributing to the youth unemployment rate (except in Romania)”*¹¹⁴.

The other vulnerable group are elderly workers (55-64 years of age). In Serbia, Croatia and some other countries the unemployment of this group increased after the first stage of the crisis or even before it started (Serbia).

In Bulgaria there was a relatively high level of unemployment of this group. However, the level declined in 2006-2009 and then increased again, because of the crisis restructuring. Also the rate of those employed at the age of over 64 increased in 2006-2009 and then declined.

3.5 Employment Policies and Labour Market Institutions

3.5.1 General Policies

Tax and fiscal policies

In most of the countries tax and social insurance reforms were implemented, as the main trend is to reduce the level of taxes (in many countries a flat tax for companies and for personal incomes has been implemented), and also some simplification and reduction of the levels of taxes. (Croatia)

The changes in the tax system received the same comment: *“this had two simultaneous negative effects — on both equity and efficiency. First, due to such an economic policy, the middle and upper classes improved their relative positions, whereas lower strata became disadvantaged.”* (Serbia)¹¹⁵

Lowering of VAT thresholds is also observed in the countries where such taxes are more important than income taxes. (Albania). However, in some countries, like Croatia, an additional crisis tax was used, but for a short period of time (2009-2010).

In addition, social insurance contributions were reduced in some countries, but in some,

¹¹² See Employment Policies in South East Europe. Common challenges and different scenarios. (Moldova). V.Antonov

¹¹³ See Employment Policies in South East Europe. Common challenges and different scenarios. The evidence from Croatia

¹¹⁴ See Employment in Romania. A contextual approach

¹¹⁵ See Employment Policies in South East Europe. Common challenges and different scenarios. (Serbia) M. Arandarenko

like Romania, they were increased after the crisis. The Bulgarian pension system has been transformed from a social security system into a tax-funded system – a change that has significant negative consequences. There is a conclusion, in the national report, that the tax policy pursued by the government does not promote sustainable employment but rather reinforces poverty and social inequality.

Labour legislation is commented on in some of the papers, although some of them are very different from each other.

On the one hand, for Croatia, the rigidity of the labour legislation is mentioned as a barrier for employment promotion. *“Thus, Croatia is characterised as having some of the most rigid employment protection regulations among the EU countries, but some of the least rigid in the SEE region. Croatia has much higher severance pay for long-time employment in comparison with other SEE countries except for Albania, Moldova and Montenegro. Croatia maintains restricted regulation, especially in collective dismissals.”*¹¹⁶

- For Romania the changes in the Labour Code, concerning the trial periods for employees and workers were commented on with regard to job security and as reasons for new unemployment. *“Thus, to verify the employee’s abilities, the trial period increased from no more than 30 days to no more than 90 for staff positions, and from no more than 90 days to no more than 120 days for management positions. The specification that for unskilled workers the trial period is exceptional and cannot exceed 5 days is eliminated.”*¹¹⁷

Education policies

In most of the countries there are disproportions between the skills and competences obtained by the young persons finishing schools and universities, and the requirements of the employers. In general, in most of the countries there are many policies and practices, but the education systems still need to be transformed according to the labour market needs.

One of the purposes is to reduce the share of the population with no primary education, which *“requires the introduction of functional primary education programmes for adults, to enable individuals who dropped out of primary school to acquire functional literacy and basic qualifications either through labour market training or the education system in order to increase their competitiveness on the labour market.”* (Serbia).¹¹⁸

*“The big issue facing school education remains early drop-out. Gradually the number of early drop-outs was reduced from 22% in 2003 to 13.9% in 2010, as a result of two main policies – mandatory and stimulating. The former was based on enforcing the rule of not paying child allowances to parents whose children do not attend school, and the latter involved the provision of free-of-charge school aid for all students up to 7th grade, free snacks, organised school transport, full day school attendance for the students from 1st and 2nd grades whose mother tongue is not Bulgarian. Ultimately, however, the effect is assessed as unsatisfactory.”*¹¹⁹

The other purpose is to transform the education system into a modern one, corresponding to the practical needs and requirements of the labour market. *“Although there are efforts to improve the linkage between the education*

¹¹⁶ See Employment Policies in South East Europe. Common challenges and different scenarios. The evidence from Croatia

¹¹⁷ See Employment in Romania. A contextual approach

¹¹⁸ See Employment Policies in South East Europe. Common challenges and different scenarios. (Serbia) M. Arandarenko

¹¹⁹ See Employment Policies in South East Europe. The case of Bulgaria. L. Tomev.

system and labour market needs, the fact is recognised that a lot of knowledge does not fit the modern requirements of the labour market and that the only way of bridging that gap is the promotion of a “learning society” and that is inclusion of adults in the process of life-long learning. (Montenegro)¹²⁰ “One of the most often emphasised weaknesses of the Serbian education system is a clear lack of connection between ‘school’ and ‘work’.” (Serbia)

3.5.2 Active and Passive Labour Market Policies

Active labour market policies

In all the countries there is legislation and practical implementation of the active labour market policies in several areas:

- training and orientation (on the job training, vocational training, preparation for work, special training for various youth groups, women and long-term unemployed, and motivation courses);
- mediation;
- public services (assistance in finding jobs and starting business, special services for immigrants and returning former emigrants);
- public work promotion (programmes for subsidised employment in public sectors);
- the creation of new jobs (subsidised or not), including subsidising the employers, offering jobs for long-term unemployed and vulnerable groups; promotion of entrepreneurship; encouraging and financing of energy efficiency programmes and “green” jobs; programmes for self-employment;
- mixed programmes: a combination of social assistance and training or social assistance and work; or work and training; programmes, supporting return from maternity leave and others.

The share of the policies and their funding, however, in the separate countries is different.

Passive policies

In all the countries there are passive policies, using unemployment benefits and/or severance payment. Usually the payment of the benefits does not exceed 12 months, depending on the length of service, and the severance payment is not more than 6 months, depending again on the length of service. In some countries bonuses for early retirement are also paid.

3.5.3 Funding of the Labour Market Policies

The policies and practices are usually funded by the state budgets, but the share of the support of EU funds is increasing.

Budget funding was easier in the time of economic growth: 2007-2009. However, the budget deficit brought about a reduction of some financing and restructuring by 3 times, and enormous growth of the funding of unemployment benefits since 2009, because of the radical reduction of the work-force in some sectors in Bulgaria. Some of the funds were used to subsidise the loss of income because of implementation of part-time employment for 4 hours.

For Bulgaria, given the diminishing budget resources, the most effective use of the funds under the Operational Programme of the EU “Human Resources Development” 2007-2013 gained in significance with regard to overcoming the effects of the crisis. Whereas in 2009 BGN8.1 million of the programme funds were spent on ALMP, representing 5% of the total programme budget, in 2010 the amounts increased to BGN34.1 million (35% of the total budget). Thus a considerable restructuring of the funding sources for ALMP took place.

¹²⁰ See Employment policies (Montenegro)

3.5.4 Evaluation of the Effectiveness of the ALMP

In most of the reports some conclusions regarding the training measures were made: the participation in the training measures is low; also the participation rate in life-long learning is low.

At the same time in some countries there are positive trends because of the training measures. There are also comments regarding the activity and independence of the unemployed, which are evaluated as weak. (Macedonia)

In some countries there have been projects for evaluation of the active labour market policies. (Montenegro, Bulgaria) *"IPA 2008 project 'Labour Market Reform and Workforce Development' serves in improvement of the capacity of the Ministry of Labour and Social Welfare, labour market institutions, improvement of analytical functions and evaluation of the employment policy for human resources, and within that, active employment measures"*. (Montenegro)¹²¹

The results of the research project *"Assessing the Impact of the Employment Services as an Instrument to Achieve Successful Integration of the Vulnerable Groups into the Labour Market"*, developed by the Ministry of Labour and Social Policy in partnership with the National Statistical Institute and Employment Agency and funded by the European Commission, are quite interesting."¹²² (Bulgaria) According to its results, the following conclusions were made:

- The individual employment services produce fast re-employment for the unemployed. An individualised approach is especially successful in the group of higher educated and qualified persons aged 30 to 50;

- There is a group of long-term unemployed who register with the Labour Offices in order to receive benefits and access to free services. More intensive motivation and activation activities are needed for these people because they show no interest in using the available broker services;
- The economic crisis led to a deteriorating labour market and decreased the chances of the vulnerable groups re-entering the market – low-educated people, the Roma community, people with disabilities and long-term unemployed.

3.6 Horizontal Principles

Social dialogue and economic and social councils

Social dialogue is evaluated in general and in particular for its importance for the labour market. In most of the countries economic and social councils have been established, but in fact they are tripartite bodies, with the participation of the government representatives. Such councils play an important role in the establishment and implementation of the labour market policies.

The Economic and Social Council of Bulgaria is an exception among the countries from region, as it has been established only as a civil society structure, with the participation of employers' associations, trade unions and other civil society organisations, representing various interests (farmers, craftsmen, co-operative organisations, also associations of disabled people, pensioners, women, consumers, associations for environmental protection, some academic representatives and others). The ESC of Bulgaria has discussed and agreed about many opinions and analyses regarding the labour market policies in 2003-2011.

In Bulgaria there is also a national tripartite council, in which the government par-

¹²¹ See Employment Policies (Montenegro)

¹²² See Employment Policies in South-East Europe. The case of Bulgaria. L. Tomev.

ticipates, and it also has a role in the labour market policy. There is also a National Employment Council and regional employment councils and a Monitoring Committee of the National Agency for Vocational Education and training, and a Supervisory Board of the National Insurance Institute, which also observes the spending of the money from the unemployment benefits fund.

For Albania and Montenegro the social dialogue, used in institutions like the monitoring committees for the National Employment Service, the Social Insurance Institute, the regional employment offices (Albania) and the steering committee at the Employment Agency (Montenegro) is commented on.

For some countries, like Serbia and Croatia, also the role of bi-partite social dialogue and collective bargaining for the labour market policy implementation are mentioned. In Serbia there is national collective bargaining, which is the most important thing for the country.

At the same time for some countries the difficulties in social dialogue are mentioned – for the bipartite dialogue (Croatia) and tripartite partnership (Albania).

Equal opportunities

In all the countries provisions for equality (based on gender, age, ethnicity, race, disabilities and other indicators) have been put into the legislation. Also many practical programmes for integration and promotion of employment of the specific groups have been implemented. There are also some comments that, in some cases, the employment could have political dimensions, which means that obtaining a job (for some jobs) often depends on the political power and relations. (Macedonia)

3.7 Country Specific / Practical Issues

For most of the countries the migration issues are mentioned as specific, which could practically transform them into more common, and as such, specific issues.

Migration

Migration has particular dimensions for various countries. For Kosovo, Albania, Romania, Moldova, Montenegro, Bosnia and Herzegovina and, to a certain degree, for most of the other countries, the emigration issues and especially the emigration of the well-educated and qualified work-force are of great importance.

For countries like Albania and Bosnia and Herzegovina there is the problem of the integration of returning migrants and also of human traffic victims.

For Croatia for long periods there were immigrants (including refugees from the neighbouring countries), then emigrants. After the start of the crisis *“the number of emigrants increased by 33% and a significant reduction in the demand for foreign labour in the building, construction and service sectors started at the beginning of 2009.”*¹²³ A similar process happened in Montenegro. *“Also, during recent years, Montenegro has received seasonal migrants from neighbouring countries, such as Serbia, the Former Yugoslav Republic of Macedonia (FYROM), the Federation of Bosnia and Herzegovina and Kosovo under UNSCR 1244/1999. They are mainly engaged as additional labour force during the tourism season in branches such as tourism and construction.”*¹²⁴

Some employment policies, including implementing together the active and passive labour market policies are typical for Bulgaria. Here

¹²³ See Employment Policies in South East Europe. Common challenges and different scenarios. The evidence from Croatia.

¹²⁴ See Employment policies (Montenegro)

the National Programme "From Benefits to Employment" could be mentioned, which was launched in 2003 as an innovative intervention aimed at re-engaging long-term unemployed who have lost their working habits and cannot make the transition to the primary labour market on their own. Also "The start-up opportunities for the unemployed" is a special active labour market programme, based on the Micro-credit Security Fund, established in 2001.

3.8 SWOT Analysis

In the national SWOT analyses, different issues are mentioned - it is too difficult to summarise them.

As common strengths mention could be made of the *fiscal and tax policies, attracting investments, the institutional set-up of the employment policy support, and encouraging measures for integrating the vocational training into the employment services provided.*

The common weaknesses are the *high share of the informal sector and informal employment, insufficient life-long learning, demographic problems (however for some countries they are different), and structural defects of the labour market.*

Among the common opportunities are the *education and vocational training reforms and the importance of the EU funds and policies.*

Among the common threats are the *emigration of the qualified work-force, the ongoing economic crisis, negative impact of global financial instability, social dumping / expanding employment in low added value industries and, in the grey sector, and growing regional disparities in terms of economic profile and labour markets.*

tioned in the Serbian report could be used, as it is also valid for others. According to it, the labour market in the region is already multifaceted and dual, and the following characteristics could be mentioned:

- *Public employment / private employment*
- *Formal labour market / informal labour market*
- *Modern labour market / traditional labour market*
- *Wage employment / self-employment*
- *Standard employment / vulnerable employment*
- *Paid employment / unpaid (mainly family and informal) employment*
- *Primary labour market / secondary labour market (subsidised programmes and others)*
- *tertiary labour market – informal, unpaid*

The main common recommendations, valid for all the countries could be summarised as follows:

- *Improvement of training and life-long learning;*
- *Improvement of employment opportunities, including orientation, career planning, and establishing conditions for distance and domestic work;*
- *Increasing the mobility and flexibility of the labour market, but not with a serious reduction of security;*
- *Measures for the reduction of informal employment and the informal economy;*
- *Improvement or recovery of social dialogue.*

3.9 Conclusions / Recommendations

As a main conclusion the thesis of the multifaceted duality of the labour market, men-

About the Authors:

(In order of appearance)

Ledio Milkani is Legal Advisor to the President of the KRISTAL Group and CEO, and also the Director of the Legal Department at the "Kristal" LLC and he is also Lector at the Law Faculty and Social Sciences department at KRISTAL UNIVERSITY in Tirana, Albania. In addition he is a member of the administrative board of some of the companies within the group. He finished his studies in the Law Faculty at the Public University in Bucharest, Romania. He has a Master's Degree in Law, and is member of the Tirana Chamber of Lawyers. During his professional career he has worked as legal expert for the Albanian Institute of Statistics, the Ministry of Labour and Social Affairs, the Financial Supervisory Authority, Unions of Chambers of Commerce of Albania, Trade Union organisations and Employers' Organisations. He has been engaged with different projects of the International Labour Organisation, such as child labour, the revision of the Labour Code of Albania, regional projects of strengthening Labour Administration in South East Europe, etc. He has been a member of the Government Group of Negotiators for Stabilisation and Association Agreement with the EU Commission, representing the Ministry of Labour. He also has worked for different private employment agencies and as an independent legal adviser of different companies.

Damir Miljević was born in 1958 in Banjaluka, Bosnia and Herzegovina. He got his Master's degree in Organisation and Management in 1984 from the University of Zagreb, Croatia. He specialised in marketing at Colorado State University, USA, in 1986. He worked as a researcher at the Institute of Economics in Banjaluka, BiH for 8 years. After the Bosnian War, he ran his own consultant company. In 2001 he was advisor to the Prime Minister of the Republic of Srpska, BiH. From 2001 he has been working as executive manager for development in MCO Sinergija Plus in Banjaluka. He is President of the Employers' Organisation of the Republic of Srpska. He is married, with two children.

Lyuben Tomev has a Ph.D. in economics. He was born in 1957 in the Town of Sevlievo, studied at the German language school in Lovech and graduated from the University of National and Global Economy in Sofia. Since 1999 he has been the Director of the Institute for Trade Union and Social Studies of CITUB. He represents CITUB in the Economic and Social Council of the Republic of Bulgaria, The Commission on Income and Living Standards at the National Tripartite Cooperation Council, and the Managing Board of NAVET (from 2001 to 2010). He has produced more than 50 publications on industrial relations, social policy, the labour market, incomes and living standards.

Maja Vehovec holds a senior research fellow position with the Institute of Economics, Zagreb. She received a Ph.D. degree in economics at the University of Rijeka, Croatia (1992), and took her post-doctoral study at Cornell University, US (1995-96). Her major fields of interest are labour economics, aging impacts on labour supply and longer working lives, health economics, pension policies and financial literacy. She has been a principal researcher and leader of a number of national and international scientific projects. She has also served as a consultant for institutions like the WB, OECD and DFID and as the evaluator for the European Science Foundation.

Iva Tomić holds a research assistant position with the Institute of Economics, Zagreb. Her major research interests are labour economics, applied microeconomics, demographic aging and public finance. Currently, she is also a Ph.D. candidate at the Faculty of Economics, University of Ljubljana. In her work, Iva Tomić has participated as a researcher in several projects and is also the co-author of a number of research articles, covering a wide range of topics, like unemployment and inactivity in the Croatian labour market, distribution of wages, population aging or determinants of pension literacy in Croatia.

Jeton Mehmeti obtained his Master's degree in Public Policy from the Central European University, Budapest. He finished his undergraduate studies in Kuala Lumpur, Malaysia, where he obtained two BA degrees, one in Mass Communication and one in the History of Religions. Since

2009 he has worked as policy analyst at the GAP Institute in Prishtina. So far he has published a book and several papers in international publications, including a country report in the regional study *Equity vs. Efficiency: possibilities to lessen the trade-off social, employment and education policy in South-East Europe* (FES, 2011). His main research interest is in social policy and religion.

During her 35-year career, in the role of internationally recognised professor and scientist, Prof. Dr. **Vesna Stojanova** has published over 200 scientific papers and research projects, of which at least 50 have been international. Since 2011 she has been director at the Integrated Business Institute and President of the NGO Junior Achievement Macedonia (1998).

Todor Milchevski is a lecturer at the Integrated Business Faculty in Skopje. There he teaches Labour economics and EU economics. His areas of expertise are employment and regional development. Todor holds an MBA degree from Schiller International University, Florida, USA. He has been involved in a number of projects related to regional development, labour economics, energy efficiency, etc. Previously, he was engaged in the Cabinet of the Deputy Prime Minister in charge of economic affairs, working in the field of economic policy and regulatory reform. He has participated in many workshops, seminars, conferences related to regional development, foreign direct investments, regulatory reforms, macro – economic modelling etc.

Viorica Antonov is a researcher and lecturer at the State University of Moldova, Chisinau, dealing with social policy and important development issues, using a comparative approach, with a particular focus on inter-disciplinary research. She is the author of original theoretical and empirical papers and research-based articles dealing with subjects of migration issues, the labour market, inequality, education and democratisation. Her background is Political Sciences (Ph.D) and Social Sciences (MA). She graduated as Erasmus Mundus Master in Local Comparative Development (University of Trento/University of Ljubljana 2009). In 2010-2011 she was a research fellow at the Institute for Development

and Social Initiatives (IDIS) “Viitorul” in Moldova. Her main fields of interest are migration, the brain drain, remittances and political reform.

Vojin Golubovic, MSc (born on December 12th 1983 in Niksic, Montenegro) is an economist currently working as a researcher at the Institute for Strategic Studies and Prognoses (ISSP) in Podgorica. He is also teaching assistant at the Faculty for International Economy, Finances and Business (University of Donja Gorica).

He has six years of working experience on macroeconomics, statistics and analyses and he has significant knowledge of national economic and related legislation and national statistics. Also, Mr. Golubovic has experience in data collection, data processing, database development and data analyses, in writing reports and delivering public presentations. He has participated in many different projects that are related to economics, macroeconomics, econometrics, policy analyses, and law analysis. The main areas of his work at ISSP are related to the labour market and employment policies, social inclusion, as well as to pension reform issues.

Vojin Golubovic spent two semesters as a visiting student on PhD Studies in Economics, CERGE-EI, Charles University, Czech Republic. He is a member of the Association of Economists of Montenegro.

Valeriu Frunzaru is senior lecturer at the State University of Political and Administrative Studies in Bucharest, where he teaches European employment policies, Introduction to Sociology, and Research Methods. He has published books and articles in scientific journals on the topic of employment, education and social values.

Mihail Arandarenko is professor of Labour Economics, Belgrade University and Director of the Foundation for the Advancement of Economics. He has written extensively about labour market and social policy issues. He has consulted long and short term to many international organisations. He is, *inter alia*, the author of ‘Labour Market in Serbia – Trends, Institutions, Policies’ (2011), and editor of ‘Mapping Serbia’s Labour Market’ (2006).

