



LABOUR MARKET REVIEW OF SERBIA

WORKING PAPER

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PREFACE

During the past decade all Western Balkan countries, at different points in time and at different speeds, have started the process of economic and social transformation to become functioning democracies and market economies. As in other transition countries the transformation process has been difficult and, despite the progress made to date, major challenges still exist in all fields, including social and economic development. The Western Balkan countries will need to continue their intensive and systematic efforts in order to succeed in the economic restructuring process and to ensure the economic growth and social cohesion that will enable them to make progress and to sustain a closer relationship with the EU. In view of the contribution made by employment and productivity to economic growth, some of these efforts need to be directed towards the development and implementation of employment policies and structural labour market reforms that support the economic restructuring process and lead to increases in productivity. In this context emphasis needs to be given to efforts for the development of an adaptable, entrepreneurial and well-skilled labour force through adequate investment in human capital. Importance also needs to be given to the promotion of inclusive labour markets (open to all and attracting the inactive) in order to increase social cohesion.

The European Training Foundation (ETF), in agreement with the European Commission, has undertaken a series of in-depth reviews of the labour markets in the Western Balkan countries, with the aim of contributing to a better understanding of their functioning and identifying areas for further work in the fields of employment policy and education and training reform. The reviews have a dual purpose:

1. to contribute to EU programming by providing well-documented input to the programming documents of the CARDS programme; to the annual country progress reports on the Stabilisation and Association process; and to the European Partnership papers and the action plans that the governments will have to prepare in order to address the challenges identified in the European Partnerships;
2. to provide a comprehensive background instrument for the Commission and the countries of the Western Balkans to support policy developments.

Specifically, these reviews:

1. analyse the economic context in the Western Balkan countries and in particular the pace of the economic restructuring process and its impact on jobs and employment (Chapter 1);
2. analyse recent trends in labour markets with the aim of identifying major challenges in the labour markets in terms of the economic restructuring process (Chapter 2);
3. assess policy responses and the institutional setting in which the challenges identified can be addressed, in the context of supporting economic restructuring and growth (Chapter 3);
4. provide recommendations for further action (Chapter 4).

The labour market challenges and the policy responses are examined against the four broad key objectives set out in the revised European Employment Strategy:

- increasing the adaptability of workers and enterprises;
- attracting more people to enter and remain in the labour market;
- investing more and more effectively in human capital;
- ensuring better implementation of reforms through better governance.

The labour market review of Serbia was prepared between October 2004 and May 2005 by a team of experts (national experts Mr Blagoje Paunovic and Mr Nikola Fabris, international expert Mr Ray Phillips and ETF experts Ms Anastasia Fetsi and Mr Henrik Huitfeldt). The review process entailed a broad consultation of documents prepared by international organisations and national institutions, as well as in-depth interviews with national and local stakeholders. A fact-finding field visit took place in October 2004 and a validation seminar of the draft results of the review for national stakeholders was held in March 2005. We would like to thank the Ministry of Labour, Employment and Social Affairs, the National Employment Service (NES) and the National Observatory on Vocational Education and Training for their openness and assistance during the whole process, and the Statistical Office of Serbia for the elaboration of statistical information from the Labour Force Surveys 2002–04. Finally, we wish to thank all representatives of national and local institutions who provided us with valuable information and comments (a list of institutions is included in Annex 6).

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EXECUTIVE SUMMARY

Since January 2001 Serbia has undertaken an ambitious programme of economic reforms, including macroeconomic stabilisation, liberalisation of foreign trade and domestic prices, privatisation, and restructuring of the banking system. Despite the remaining macroeconomic imbalances and structural problems, the achievements to date include an increase in gross domestic product (GDP) and GDP per capita, an increase in foreign direct investment (FDI), a decrease in inflation and a reduction of public debt.

The structural adaptation of the economy has, however, created significant pressures on the Serbian labour market. Although accurate data on activity, employment and unemployment in Serbia is difficult to provide because of the extent of the informal sector, the following main labour market trends can be identified using data from the Labour Force Survey (LFS):

- (i) the activity rate for the working-age population (15–64 years) was relatively stable between 2000 and 2003 (68.4%) and was comparable to the EU average;
- (ii) employment rates have decreased slightly, reaching a level of 58%, which is lower than the EU-15 rate of 64.3%, though higher than in the new EU Member States (55.9%);
- (iii) the registered unemployment level has substantially increased (to around 30% in 2004).

Women are particularly disadvantaged in the labour market, with their employment rates having decreased much faster than those of men, and there are indications that their activity rates are also decreasing. Young people also present disproportionately high unemployment and low employment rates.

One of the major challenges for the Serbian labour market is to create a sufficient number of high-quality, secure jobs to absorb workers made redundant through the privatisation process, unemployed individuals and new entrants. Until now job creation in growing and newly created enterprises (mainly SMEs and the service sector) has been unable to offset the destruction of non-productive jobs in large enterprises, mainly those in industry. Many people are involved in agriculture, where the share of employment, including small-scale farming, remains at high levels and is fairly constant at around 25%. Furthermore, many people are involved in the informal sector, where the share of employment was estimated at 28% of total employment in 2002. Although these jobs can generate income for their holders, they are often of low quality: many are seasonal, temporary or occasional jobs, poorly paid and with poor health and safety conditions.

A second challenge is to promote further the still limited reallocation of workers from non-productive to productive jobs. For the moment it seems that workers (including managers) are reluctant to leave their present jobs voluntarily and search for better job opportunities (including self-employment), even if they are poorly paid or not paid at all. Rather, they prefer to wait for redundancy compensation, while working in parallel in the informal sector. Significant flows between employment, unemployment and non-activity in Serbia demonstrate a labour mobility that is much higher than in other transition economies, and close to the mobility of the very dynamic US labour market. However, in Serbia the high labour mobility is not an indication of a dynamic, well-functioning labour market; instead, the main reason for the high labour mobility is likely to be the predominance of insecure short-term formal or informal jobs.

The high labour mobility leads to a third challenge concerning the need to attract more people to the formal labour market and to motivate redundant workers and unemployed individuals to search actively for a job (in the formal labour market). A relatively large proportion of the population currently has a weak attachment to the labour market. Data from the Standard of Living Measurement Survey demonstrate that only around a third of the active population had a permanent job in the formal sector in 2001–02. It seems that many people have developed lifestyles (and/or survival strategies) characterised by multiple employment status, and readily switch between employment and unemployment and between formal and informal activities as opportunities become available. The informal sector seems to be a common entry or exit point into and out of employment, as informal employment is much more common among women and among the youngest and oldest age groups. The fourth challenge concerns supply-side deficiencies, namely skill gaps, which are less apparent than the lack of jobs in the current state of development of the Serbian economy, but which could become an important impediment for future economic development. As has been the case in the initial phase of transition in other economies, the gaps for soft skills and appropriate attitudes to work are still more pronounced than those for technical skills (except in dynamic sectors such as banking and

financial services, and healthcare). However, the significant depletion of skills experienced by the Serbian workforce during past decades, together with the limited opportunities for both employed and unemployed individuals to upgrade, update or change their skills and improve their work attitudes, could create future skill bottlenecks. Moreover, the initial education and training system, which is based on outdated principles and methods, does not adequately prepare young people for the shifting demands of a changing economic and labour market structure.

Employment policy formulation

Since 2001 governments in Serbia have made a number of efforts to address these challenges. Together with efforts to create a favourable macroeconomic environment for enterprises, specific measures to support enterprise adaptability and job creation have been promoted through the privatisation programme of 2001 and the SME Strategy of 2003.

The Ministry of Labour, Employment and Social Affairs (MoLESA) has been active in the modernisation of the legislative framework and the institutional setting for a better functioning of the labour market. The MoLESA also has launched a social programme that provides compensation to employees made jobless from companies affected by restructuring, privatisation and bankruptcy. The social programme is disproportionately generous in relation to the help made available to unemployed people in terms of active labour market measures and unemployment benefits. Its impact on the efficiency of the labour market is doubtful. Since mid 2004 the MoLESA has been working on the development of the National Employment Strategy for 2005–10, with the aim of creating a comprehensive and coherent approach to the use of labour market instruments alongside the economic restructuring process. One of the main characteristics of this approach is the shift from ad hoc measures to deal with redundancies and unemployment towards strategic actions to support employment and improve the quality of the labour force.

The Ministry of Education has launched actions for the modernisation of the education and training system through the elaboration of policies and pilot activities. Despite delays caused by frequent ministerial changes, work in the field of vocational education and training (VET) has progressed with the preparation of high-quality comprehensive policy papers, namely the green papers on VET and the development of adult education, which aim to bring education and the economy closer, develop a national qualification system, set up quality assurance mechanisms and modernise curricula. However, the ambitious reforms envisaged depend on implementation capacity (at both national and education and training provider level) and the availability of funds.

Areas for future work that will address the challenges identified above include:

Increasing the adaptability of enterprises in order to support job creation, through:

1. further support to the establishment and growth of SMEs, in particular in terms of access to funds and high-quality advisory services, assistance for technological innovation, product diversification and access to broader markets;
2. containing the increase in labour costs, which outweighs productivity gains, mainly through a review of the system of social contributions;
3. rebalancing the extremely generous social programme for enterprises under restructuring with actions that care for unemployed individuals in general;
4. promoting the use of flexible forms of work in the formal sector and introducing flexible work organisation patterns through the provision of incentives to enterprises.

Attracting more people to enter and remain in the (formal) labour market: making work a real option for all, through:

1. developing a well-designed activation agenda combining passive and active measures to address the needs of unemployed people in terms of increasing their employability; this encompasses
 - i. a proper social safety net for people who lose their jobs, through the timely payment of the unemployment benefit, while ensuring that this benefit (or accumulation of benefits) will not deter them from searching for a job;
 - ii. redirecting active labour market measures towards lower unit cost measures that reach a larger number of unemployed people, and providing more expensive measures such training, wage subsidies and public works selectively and on the basis of individual career plans;
 - iii. introducing proper evaluation of active labour market measures;

2. providing high-quality assistance to unemployed people to identify job opportunities in the formal sector, including counselling, motivation seminars and job search assistance (seminars, job clubs, job fairs);
3. improving the operational and allocative efficiency of the National Employment Service (NES) by
 - i. removing incentives for people to register as unemployed, such as health insurance, and cleaning the registers in order to reduce the caseloads of 2,000 individuals per counsellor;
 - ii. identifying the core business of the NES;
 - iii. increasing front-line staff for the NES;
 - iv. improving the operational process and introducing performance indicators.

Investing more and more effectively in human resources, through:

1. focusing further policy work on ways to overcome the main constraints and barriers for the implementation of the agreed strategy and the development of pragmatic action plans, monitoring mechanisms and new financing mechanisms;
2. developing an institutional infrastructure that ensures the involvement of key stakeholders in policy development and implementation (for example, the development of a national qualification system and the definition of new occupational profiles and standards);
3. strengthening existing professional institutions (the Institute for Improvement of Education and its VET Centre, and the Centre for Evaluation) to enable them to provide support for the development and implementation of new curricula;
4. setting up a teacher-training system that will enable teachers to implement large-scale reform at school level;
5. moving adult training higher up the government agenda and strengthening the institutional role of the MoLESA;
6. putting more efforts into the design and delivery of short training courses to unemployed individuals, redundant workers and employees, covering both core skills and technical competences;
7. setting up a system of accreditation of training provision to ensure quality.

Ensuring effective implementation of reforms, through:

1. strengthening further the capacity of the social partners and the motivation and effective functioning of the appropriate councils at national and local level (for example, the National Employment Council, the Socio-Economic Council, Territorial Employment Councils);
2. developing further the NES through the introduction of annual action plans and sound implementation mechanisms; the latter relate in particular to the need to
 - i. increase the capacity of the MoLESA to coordinate and monitor the strategy successfully;
 - ii. establish monitoring mechanisms for the implementation of the reforms and employment policy, starting with targets and performance indicators, data collection instruments and analyses.
3. making best use of donor funds through
 - i. donor coordination mechanisms;
 - ii. the evaluation of donor projects and experimentation;
 - iii. the transformation of lessons learned into policy making and system reforms.

1. ECONOMIC SITUATION AND BACKGROUND

1.1 MACROECONOMIC SITUATION

During the 1990s Serbia experienced an overall decline in GDP as a result of the poor economic management of the previous decades, the disintegration of the Socialist Federal Republic of Yugoslavia, UN trade sanctions and the NATO military intervention. Following the political change in October 2000, the new government started the implementation of an ambitious programme of economic reforms, including macroeconomic stabilisation, liberalisation of foreign trade and domestic prices, privatisation, and restructuring of the banking system. Despite residual macroeconomic imbalances and structural problems in the economy, much was achieved between 2000 and 2004: growth picked up, structural reforms were initiated, per capita income increased from €829 to €2,570, annual inflation fell significantly from 111.9% to 13.7%, and the percentage of external debt and public debt declined against GDP from 133% to 61.3% and from 120% to 80.3% respectively. Foreign direct investment increased from US\$25 million to US\$1,300 million, though is estimated to have decreased to US\$800–850 million in 2004.

The economic reform programme, assisted by donor funds, remittances and initial foreign direct investment, resulted in a positive GDP growth rate. During the period 2001–03 the average rate of GDP growth was 4.5%. Although the growth rate declined overall during that period, in 2004 it reached 8% as a result of the economic reforms of previous years and to a certain extent as a result of higher agricultural output because of favourable weather conditions¹. The most dynamic growth was in the manufacture of coke and petroleum refinery products, the manufacture of chemicals, the manufacture of rubber and plastic products, communications, domestic trade, the iron and steel industry, the financial sector and others.

However, as a result of overmanning in socially-owned enterprises during the previous regime, the economic growth of recent years has not brought about an increase in employment. In fact most of these companies are still facing the problem of redundant workers, i.e. workers on the payroll who are not needed. An increase in employment is expected to be recorded for 2004, the first year in which this has occurred.

The level and nature of exports are not favourable for employment in Serbia. Exports remain low, the trade deficit accounts for 32% of GDP and the estimated current account deficit is 13%. Exports are still concentrated in products requiring unskilled labour and those that are natural-resource intensive (sugar, furniture, iron, steel and agricultural products, and consumer goods that are not highly processed, such as textiles, footwear, leather, wood and clothing). However, there has been a recent shift towards exports that require skilled labour and those that are technology intensive. For example, in 2003 exports of highly processed goods increased by 27.4%². While the concentration of trade activities in products that are natural-resource and unskilled-labour intensive has acted as a short-term cushion for job losses for unskilled workers, a reliance on exports that are relatively low-skill-intensive and low-value-added constrains the possibilities for the economy to generate new jobs in higher-value-added, higher-skill-content sectors with higher wages and greater growth potential. Labour costs in Serbia are relatively high: the average wage increased substantially between December 2000 and December 2003 from €78 to €213 per month³, which is higher than in other countries in the region; further wage inflation will have a negative impact on Serbia's competitiveness. Therefore, reliance on unskilled-labour-intensive exports, such as textiles and footwear, may not be sustainable in the long run, given the growing competition from low-wage countries, in Asia and elsewhere.

1.2 ECONOMIC RESTRUCTURING

The GDP structure by sector of economic activity has changed during recent years, with a decrease in the share of agriculture (from 22.2% of GDP in 2000 to an estimated 16.2% in 2004) and an increase in the share of services (from 46.9% in 2000 to 57.4% in 2004). Industry's share has remained relatively constant. The contribution of the private sector to GDP has also increased, from 40% in 2000 to 50% in 2004.

¹ The share of agriculture in GDP is between 18% and 19% and a double-digit growth rate is expected for 2004.

² Unit value indices of the volume of exports and imports, Federal Bureau of Statistics, 2004.

³ Source of data: Federal Bureau of Statistics.

One of the reasons for the growth of the private sector has been the change in the ownership of existing enterprises through the privatisation of public and socially-owned enterprises. The privatisation process in Serbia has taken place in three waves. The first started within the reform programme of Ante Marković in 1989, the second (mainly directed towards local investors) was initiated by the regime of Slobodan Milošević in 1997, and the third, which was the most important, was started by the newly elected government in 2001. The privatisation wave of 2001 has been predominantly based on the method of selling by auctions and tenders. It is under the supervision of the Agency for Privatisation. Although the privatisation process started quite dynamically it has lost momentum over the past two years. Between 2001 and 2004 over 1,200⁴ enterprises were privatised, out of 2,400, with their total productivity around 90% higher than that of state-owned enterprises⁵. The enterprises that have been privatised so far are mainly the most promising and physical-asset-holding medium-sized enterprises, while the large enterprises face serious problems in terms of their privatisation. These large enterprises were gigantic industrial firms and the main engines of economic growth before the disintegration of the Social Federal Republic of Yugoslavia, in such sectors as the automobile industry, the electronics industry, machine manufacture, the production of agricultural machinery and equipment, the metal-working industry, and the manufacture of tools and tool machines. Most of these firms are in an extremely difficult situation, and have very little chance of surviving because of outdated equipment, obsolete technological processes, uncompetitive products, a lack of markets, and high numbers of redundant workers. So far only one out of the 72 large socially-owned enterprises (in the group of enterprises that are in the process of restructuring) has been wholly privatised, while a number of others have been sold in parts. All these enterprises are under a restructuring process conducted by the Agency for Privatisation with the help of consultants, involving: (i) status and organisation restructuring, (ii) financial restructuring (debt settlement), and (iii) downsizing, i.e. the preparation and implementation of a social programme for employees (for more details see Chapter 3). The restructuring process of enterprises is intended to make them suitable for successful privatisation. However, inevitably this is a long process during which enterprises cannot make decisions about their future (on such matters as the level of production, management and markets), and thus results in uncertainty for employees.

1.3 SME DEVELOPMENT AND THE INFORMAL ECONOMY

The other reason for the growth of the private sector has been the establishment of new private enterprises, mainly SMEs. Between 1999 and 2003 the total number of active SMEs grew slowly but consistently from 60,991 to 68,220, accounting for 99% of all firms in 2003. Basic indicators of the state and development of SMEs show that these enterprises have increased their contribution to GDP⁶ (SMEs' share of the total revenue of the economy increased during the period 2000 – 2003 from 34.7% to 51.2%). Furthermore, SMEs performed more efficiently than the rest of the economy and achieved above-average profitability⁷; they were also net (though modest) job creators, as demonstrated by their increasing number of employees in the period 2001–03 (Table 1). However, the jobs created in the SME sector were not sufficient to absorb all job seekers. It should also be noted that the average number of employees in SMEs decreased from 22 to 18 during the period 2000–03.

⁴ During the 1990s, 950 enterprises were also privatised.

⁵ World Bank study.

⁶ National Bank of Serbia; Annual Company Accounts for 2000–03.

⁷ 'Small and medium-sized enterprises and entrepreneurship', Belgrade, 2004, p. 41.

Box 1: Definition of SMEs in Serbia

According to the Law on Accounting and Auditing, medium-sized enterprises are economic subjects that fulfil at least two of the following three criteria, at the time their balance sheet is drawn up:

- (i) the average number of employees is 50 to 250;
- (ii) the total annual income is €2.5 million to €10 million in dinar counter value;
- (iii) the average value of assets is €1 million to €5 million in dinar counter value.

Small firms are economic subject that fulfil two of the following three criteria, at the time their balance sheet is drawn up:

- (i) the average number of employees is less than 50;
- (ii) the total annual turnover is no higher than €2.5 million;
- (iii) the average value of their assets is no higher than €1 million.

As well as small and medium-sized enterprises (SMEs), the small business sector also includes enterprise units (such as handicraft operations, shops and agencies) in which the entrepreneur as a physical person carries out registered activity.

Most of the SMEs (and jobs) are in the trade and service sector and the processing industry. In 2003 SMEs accounted for most of the employment in the following sectors: financial services (99.5%), real estate sales and rentals (87.6%), tourism (83.3%), retail and wholesale (81.8%) and construction (70.6%)⁸. With the exception of the financial services sector, all sectors employ a low-skilled workforce.

Table 1: Number of employees in SMEs and share of SMEs in total employment

	2000	2001	2002	2003
Number of employees in SMEs ¹	623,013	590,307	672,969	668,722
Percentage of employees in SMEs ²	30.08	29.62	36.02	36.78

⁽¹⁾ Source: Development Office of the Republic of Serbia

⁽²⁾ Calculated on the basis of the total number of employees according to the LFS

One important characteristic of the economy is the existence of a substantial informal sector, which, according to estimates from the Ministry of Economy, accounts for around 30% of GDP. The informal sector is not a new phenomenon in Serbia. It has rather a long tradition, and has been tolerated by governments for many years because it offered a survival strategy for a proportion of the population during the 1990s. The informal sector comprises: (i) private unregistered firms of various sizes, though mainly very small or family businesses and small enterprises; (ii) undeclared and under-declared work in registered enterprises; and (iii) activities at home or door-to-door, in the flea market or in other places.

The informal sector generates household income but also creates distortions and wider problems of governance. First, most jobs in the sector are uncertain, low paid and low skilled, while others involve criminal activity and (for some people) are highly rewarded. Second, it deprives the government of tax revenues. Third, some of it creates unfair competition for formal enterprises because of its lower (labour) production costs. Finally, although informality in an initial stage of the business is an advantage (because of reduced costs), it becomes an impediment to growth because gaining access to institutional funds and benefits is very much more difficult, if not impossible.

1.4 POVERTY

The dramatic decrease of GDP, the decline in formal employment levels, the large decreases in wages, pensions and other personal incomes, and the huge influx of refugees (around 700,000) led to the impoverishment of a large number of people during the 1990s, a phenomenon that was unknown, at least in its extremes, in Serbia before this time. According to the Poverty Reduction Strategy of Serbia, in 2002 there were approximately 800,000 poor people, i.e. 10.6% of the population, with their

⁸ Ibid., p. 67.

monthly consumption being under US\$72. This corresponded to less than US\$2.4 a day, which was determined as the national poverty level⁹.

Poverty is most prevalent in the large former industrial and mining centres (Kragujevac, Niš, Vranje, Bor and Majdanpek) and in the very south of Serbia. The situation is much better in Belgrade, and in the north of Serbia, where agriculture provides opportunities for additional income. Poverty levels are higher among the Roma and Albanian minorities, who also have much lower education levels than the average of the population, among refugees from Croatia and Bosnia and Herzegovina, and among internally displaced persons from Kosovo, many of whom have lost their property and are unable to find jobs because they are concentrated in local labour markets that are unable to absorb them. Most of the refugees face basic problems such as housing. Refugees and internally displaced persons live in 170 collective centres, with friends and relatives, or as subtenants. The government of the Republic of Serbia has so far built 5,000 flats for refugees and internally displaced persons, and has distributed 2,000 packages of building materials, though these measures have addressed the needs of only 30,000 refugees¹⁰.

⁹ If US\$2.4 was set as the national poverty level, 1.6 million people would be classed as 'poor'.

¹⁰ The Serbian government has earmarked €40 million for 2004 assistance for refugees and internally displaced persons. The financing of refugees still depends to a large extent on donations and international assistance.

2. TRENDS IN THE LABOUR MARKET

2.1 POPULATION AND THE STRUCTURE OF THE LABOUR FORCE

Serbia has an ageing population of 7.5 million¹¹. Between 1991 and 2002 the population decreased by a net 80,000. The under-16 population fell by more than 300,000 as a result of low birth rates. This was partly offset by large inflows of refugees from Croatia and Bosnia and Herzegovina, and internally displaced persons from Kosovo. The working-age population (15–64 years) is 5.0 million. Between 1991 and 2002 the working-age population fell by around 130,000.

The population is predominantly Serb, with a significant and ethnically diverse minority; 83% of the total population in Serbia (without Kosovo) are Serbs. The largest minority groups are Hungarians (3.9% of the total population), Roma (1.4%¹²) and Albanians (0.8%). The Hungarian minority of almost 300,000 persons is concentrated in Vojvodina, where it accounts for around 15% of the total population. The Roma minority is distributed uniformly across the whole of Serbia, with a higher share in four regions in central Serbia (Nišava, Toplica, Pirot and Jablanica). The Albanian minority in Serbia is concentrated mainly in three municipalities located along the border with Kosovo (Medvedja, Bujanovac and Preševo). In these three municipalities the Albanian population accounts for 64.7% of the total population.

According to UNHCR figures, there were around 276,000 refugees and around 207,000 internally displaced persons in Serbia in February 2004¹³. This is the largest refugee population in Europe. A large number of refugees do not wish to return to the country from which they have been expelled. Integration into Serbia is the option preferred by 60% of refugees from Croatia and Bosnia and Herzegovina¹⁴. With regard to repatriation to Croatia and Bosnia and Herzegovina, refugees are faced with numerous problems, in particular the restitution of their property. As for Kosovo, the refugees' return to most locations would be almost impossible. The highest concentration of refugees and internally displaced persons is in central Serbia. Most of these live in Belgrade, Kraljevo, Kragujevac, Niš, Smederevo, Kruševac, Leskovac and Vranje.

2.2 EMPLOYMENT DEVELOPMENTS AND STRUCTURAL SHIFTS AND CHANGES

During the past 15 years in Serbia the old economic structure and patterns of employment have been shaken to their foundations. Yet despite the macroeconomic reforms that have taken place, the process of change has been slower and more painful than in most other transition countries. As a result, several distortions have been created. In the absence of significant new opportunities, workers with formal employment contracts in old enterprises remain attached to their jobs, even if these are unpaid and offer no long-term prospects. Many others have been caught in the middle of this slow transition and are performing various temporary jobs when opportunities arise, often in the informal economy. This transitory labour market is difficult to analyse using standard data sources. Table 2 provides data demonstrating the differences in activity, employment and unemployment rates using alternative data sources, while Box 2 discusses the available data sources and how they can be used to better understand developments in the Serbian labour market.

¹¹ Population census 2002.

¹² However, many prefer not to class themselves as Roma: researchers and demographers estimate that the number of Roma now living in Serbia could actually be between 400,000 and 450,000 (UNDP, 'The situation of Roma in Yugoslavia (Serbia and Montenegro) compared to Roma in Central and Eastern Europe'). This is around 5% of the total population in Serbia.

¹³ The third census of refugees has been conducted in 2005 (outcomes not available by the time this review was finalised).

¹⁴ Commissariat for Refugees.

Table 2: Key labour market indicators for working-age population (15–64 years) in 2002

	Population census	LFS (without temporary active)	LFS (with temporary active)	LSMS	NES
Activity rate	64.8	65.6	69.9	64.6	-
Employment rate	50.3	55.8	60.0	56.6	-
Unemployment rate	22.3	15.0	14.1	12.4	26.3

Source: Republican Statistical Office and Ministry of Labour, Employment and Social Affairs

Notes:

- For the definition of LFS and LSMS see Box 2.
- The activity rate is defined as the share of the labour force in the working-age population; the employment rate is the share of employed people in the working-age population; and the unemployment rate is the share of unemployed people in the labour force. Unemployment in the population census is based on self-reporting, while in the LFS and the LSMS, unemployed individuals are defined as those who have not worked more than one hour during a reference week, but who are available for and actively seeking work. The NES unemployment rate is calculated using the estimate of employment from the population census.

Box 2: Data sources and basic labour market indicators

Four major data sources can be used to analyse the Serbian labour market:

- (i) the Population Census 2002, carried out in May 2002 and covering all households in Serbia, and Serbian citizens working abroad for less than one year;
- (ii) the annual Labour Force Survey (LFS), carried out annually in October since 1995 and covering a sample of around 12,000 individuals;
- (iii) the Living Standards Measurements Survey (LSMS), carried out by the MoLESA in June 2002 and June 2003 and including a labour market module; the sample size was 19,000 in 2002 and 8,000 in 2003, with 7,400 individuals participating in both surveys;
- (iv) statistics from the National Employment Service on registered unemployment.

These data sources use different methodologies, and all are useful for understanding the functioning of the Serbian labour market. In the Population Census, employment and unemployment are based on self-reporting: respondents are asked directly about their main labour market activity during a reference week. The LFS and LSMS follow the standard ILO methodology, whereby labour market activity is determined by following a sequence of standard questions. In addition, in the LFS the respondents are specifically asked whether they carried out any temporary short-term work during the reference week (even if they stated that they had not worked for pay in response to the standard question). In the LFS, this group is classified as 'temporary active'. The key labour market indicators in 2002 allow a comparison to be made between various sources. The activity rate in Serbia is around 65%, a figure that is fairly consistent among the data sources. Non-active persons are well defined, and few of them do not participate in the labour market for labour market reasons. According to all data sources more than 90% of the non-active population are students, pensioners and homemakers. However, many unemployed people might not be seeking a job very actively.

The employment rate according to the LFS and LSMS is around 56 %, significantly higher than in the Population Census. The LSMS includes detailed questions on the informal sector and is more likely to classify informal workers as being employed. If temporary active persons, who to a large extent are working informally, are added to the employed figure in the LFS, the employment rate increases to 60%.

The unemployment rate ranges from 12.4% in the LSMS to 26.3% in the NES data. However, as most people without formal employment are earning their living through activities in the informal sector, the estimated unemployment rates are to a large extent only indicating how well informal activities are covered by the data source. Those registered as unemployed at the NES are also likely to include a large number of non-active individuals, in particular homemakers who register to gain access to free health insurance. The LFS unemployment rate of around 15% is the best indicator for international comparison.

Economic restructuring and the Serbian labour market

In successful transition countries more than half of workers changed job during the first few years of reform. Economic reforms changed the conditions for the old enterprises through changing markets, the abolition of direct and indirect subsidies from the state, and privatisation. As a result, many skilled workers and managers used their skills and market knowledge to set up new enterprises with more efficient organisational forms. These new enterprises, which were not always small, have become a major source of job creation in the early years of reform. Privatisation was only important for job creation in a small proportion of enterprises, though the privatisation process created conditions that allowed new companies to emerge with much greater employment potential.

Before 2001 economic reforms in Serbia were unsystematic. The resumed restructuring of the Serbian economy in the early 2000s is changing the labour market. The proportion of unemployed people with prior work experience increased from 34% in 2000 to 51% in 2003, and only 10% of unemployed individuals with prior work experience had left their former jobs voluntarily¹⁵. This indicates that lay-offs have become a significant factor since the early 2000s. Laid-off workers have few opportunities in the formal economy, where there is a large overall deficiency of jobs. There exist few prospective jobs into which individuals can move. The primary survival strategy for many workers has been to maintain their old employment and to complement their income through a wide variety of small-scale activities outside the formal employment sector. At the same time, managers and highly skilled workers often have strong incentives to remain in the old enterprises, and have not set up new enterprises on a large scale.

Employment trends

Total employment in Serbia decreased by 5% between 2000 and 2003, according to the LFS. In 2003 the employment rate was 57.9%. The private sector is growing, mainly as a result of the privatisation programme rather than a growth in the number of new enterprises. The proportion of employees in the private sector increased from 18% in 1999 to 33% in 2003. As in other transition countries, employment in the service sector is increasing. Between 2000 and 2003 the proportion of employment in services increased to 46%, while the share in industry decreased to 28%. Agricultural employment, including small-scale farming, has remained relatively constant at around 25%.

The employment rate for men is significantly higher than for women (64.4% and 44.0% respectively). The number of employed people decreased by more than 100,000 women and 30,000 men between 2000 and 2003. However, at the same time the number of unemployed men increased by 40%, while the number of unemployed women remained stable. Instead of becoming unemployed, many women who lost their job withdrew from the labour force. Even so, the unemployment rate is higher for women than for men.

Significant differences exist in the employment rates for groups with different levels of educational attainment. The employment rate is 42.8% for those with low skill levels, 58.2% for those with medium levels and 77.8% for people with higher education. Skill levels are important in the competition for jobs in the formal Serbian labour market. The unemployment rate for low-skilled individuals was lower than for medium-skilled people in the Population Census and the LSMS, though this was not the case among those who were registered unemployed, indicating that many low-skilled individuals are working in the informal sector. Between 2000 and 2003 employment decreased and unemployment increased significantly for those with low skill and high skill levels, though to a lesser extent for medium-skilled individuals.

The number of formal job opportunities is modest because of the relatively small size of the formal sector, widespread overmanning and the slow pace at which new jobs are being created within the formal sector. This appears to discourage young people from entering the labour market. The activity rate of the 15–24 age group is around 34%. The employment rate for this age group is only 18%. This is much lower than in the EU-15 (40.6%), and is also lower than in the new EU Member States (25.4%). On the other hand, between 2000 and 2003 the unemployment rate increased much faster for the older age groups than for younger workers.

In general the key labour market indicators for Serbia do not differ significantly from those in the EU or in other transition countries. The activity rate and employment rate in Serbia are lower than in the EU-15 (69.7% and 64.3%), but comparable with the activity and employment rates in the new EU Member States (65.8% and 55.9%). However, a major difference is that the Serbian economy is not generating jobs in the formal sector for a very large proportion of the labour force. As a result, many individuals have only a weak attachment to the formal labour market and are often moving in and out of various forms of temporary employment, unemployment and inactivity.

¹⁵ Labour Force Survey.

Labour mobility and attachment to the labour market

In the Population Census, LSMS and LFS data, labour market status is determined in terms of a reference week. For example, individuals who are occupied in different short-term labour market activities for large parts of the year will be classified as employed if they have been able to find some work during the reference week and as unemployed if they have not. The corresponding estimations of employment, unemployment and inactivity do not capture the real dynamics of the labour market. To analyse the dynamics of the Serbian labour market more effectively, we need information on individuals over a longer time period.

The LSMS provides information on labour market activity for individuals at two points in time, June 2002 and June 2003. A comparison of labour market activities on the two survey occasions creates a picture of the labour market dynamics in Serbia and the level of attachment to the labour market of different individuals. Table 3 shows the mobility between formal employment, informal employment, unemployment and non-activity states between 2002 and 2003.

Table 3: Labour mobility between 2002 and 2003 (% of working-age population – aged 15–64 years)

	Activity in 2003					Total
		Formally employed	Informally employed	Unemployed	Inactive	
Activity in 2002	Formally employed	29.8	6.8	1.5	5.4	43.5
	Informally employed	5.4	8.4	0.9	3.5	18.1
	Unemployed	1.1	1.3	1.3	1.5	5.2
	Inactive	3.2	4.3	1.8	23.8	33.1
Total	39.5	20.8	5.5	34.2	100.0	

Source: LSMS, own calculations

Flows between employment, unemployment and non-activity in Serbia are significant. In 2003, 38% of the working-age population were in a different labour market state (formal employment, informal employment, unemployment or non-activity) to the one they were in 2002, according to the LSMS. The level of labour mobility in Serbia is much higher than in other transition economies and is close to the mobility of the very dynamic US labour market. However, in Serbia the high labour mobility level is not an indication of a dynamic, well-functioning labour market. Instead, the main reason for the high labour mobility is likely to be the scale and pervasiveness of the informal economy, which is mainly characterised by recurrent irregular activity.

As shown in Table 3, only 29.8% of the working-age population had a formal job on both survey occasions (around 60% of those employed). Table 4 indicates that 76.9% of the working-age population had some attachment to the labour market in either 2002 or 2003. That is, only around a third of the active population had a permanent job in the formal sector. Moreover, many of these individuals are likely to be employed in enterprises that are not currently producing goods, or that have little or no future. According to the recent Productivity and Investment Climate Survey, only 25% of enterprises have the optimal number of employees¹⁶. Thus, only a small proportion of workers in Serbia have a secure position in the labour market.

¹⁶ 'Republic of Serbia – An agenda for economic growth and employment', World Bank, 2004.

Table 4: Participation in the labour market (% of working-age population)

	% of working-age population
Active in 2002 or 2003	76.9
Employed in 2002 and 2003	50.4
Formally employed in 2002 and 2003	29.8
Unemployed in 2002 or 2003	10.7
Unemployed in 2002 and 2003	1.3

Source: LSMS, own calculations

The informal sector represents a significant share of total employment. In the LSMS informal employment was estimated to be 30% of total employment in 2002¹⁷. The informal sector does create employment, but it is often of poor quality, seasonal, temporary or occasional, and is characterised by low pay and unregulated health and safety conditions. Some 54% of workers in the informal economy are engaged in either temporary or seasonal work. The agricultural sector represents 40% of total informal employment. More than half of all workers in agriculture work informally. The trade and service sectors are also overrepresented in terms of informal employment.

Little comparative information exists to allow current trends in the informal economy to be assessed. Much attention has recently been given by the authorities to discouraging participation in the informal economy. The introduction of legal requirements for the use of cash registers and receipts, the introduction of VAT and of improved inspections are likely to contribute to a formalisation of some of the informal economy and a reduction in the underrecording of transactions and economic activity.

Early indications are that these measures are increasing government revenues markedly. However, the informal economy will retain its attraction for many people because restructuring and the consequent loss of old formal jobs leave them with few other legitimate employment opportunities. According to the LSMS the share of informal employment increased from 30% in 2002 to 34% in 2003. More than 40% of the individuals employed in both years covered by the LSMS were working informally on one or other of the survey occasions. The flows from unemployment and non-activity to the informal sector are higher than into the formal sector, while significant flows take place from the informal sector to the formal sector. Some 30% of workers who were in the informal sector in 2002 had a formal job one year later. The informal sector seems to be a common entry or exit point into and out of formal employment for the youngest and the oldest age groups. Some mobility also takes place within the formal sector. Almost 4% of the people who had a formal job in both 2002 and 2003 had changed job during the year.

As shown in Table 5, there are few differences between men and women in terms of formal and informal employment. Men are more likely than women to move between labour market states. However, if movements into and out of the labour force are excluded, women are as likely as men to move between formal employment, informal employment and unemployment. Most employed individuals with higher education have a strong attachment to the formal labour market, while low-skilled workers are more likely to find a job in the informal sector and to move between different labour market states.

According to the LFS and statistics from the NES, long-term unemployment is very high. However, as these data sources do not give an accurate picture of the informal sector or of movements between unemployment and work in the informal sector, they fail to reveal the actual situation in the labour market. The LSMS showed that a significant number of workers were occasionally unemployed: 14% of the labour force were unemployed on at least one of the survey occasions. However, only a small number were unemployed on both survey occasions, indicating that long-term, continuous unemployment is rare. Some 75% of all those who were unemployed in June 2002 had work of some kind one year later; 21% had a job in the formal sector, while 25% were working in the informal sector.

¹⁷ The definition used in the LSMS include (i) employed with no social contributions paid, (ii) employed who work in private unregistered firms, and (iii) employed who work at home, door-to-door, at markets or in other similar places.

Table 5: Labour market by demographic groups (% of working-age population)

	Active in 2002 or 2003	Formally employed in 2002 and 2003	Informally employed in 2002 or 2003
Total	76.9	29.8	30.5
By gender			
Men	84.5	33.8	35.5
Women	68.2	25.6	25.8
By age			
15–24	50.5	6.7	21.5
25–34	90.2	34.3	34.7
35–44	93.2	44.8	33.6
45–54	85.2	40.6	32.4
55–64	54.5	15.0	29.0
By educational attainment			
Low-skilled	66.1	17.2	36.1
Medium-skilled	81.3	34.1	29.5
High-skilled	87.7	53.5	16.2

2.3 INACTIVITY, UNEMPLOYMENT AND SOCIAL EXCLUSION

According to the NES data, in December 2004 the number of people registered unemployed in Serbia reached 859,728, around 30% of the labour force. Given that only a small proportion (around 10%) of unemployed or non-employed people receive unemployment benefits or social assistance in Serbia, most people without formal employment have little option but to earn their living through activities in the informal sector. It is therefore difficult to estimate the level of unemployment in Serbia. Employment Service staff estimate that only around half of those registered as unemployed are searching for a job.

If an estimation of the labour force based on the 2002 Population Census is used, the registered unemployment rate is 26.3%. The registered unemployment rate is significantly higher for women than for men (31.6% and 21.9% respectively) and for individuals with low skill levels (38.2% for low-skilled, 27.3% for medium-skilled and 9.2% for high-skilled).

At the end of 2004 some 70.3% of unemployed individuals had been registered for longer than one year. Men had slightly shorter durations of unemployment than women (67.3% and 72.8% respectively had been registered as unemployed for longer than one year). Those with high skill levels leave the registry faster (62.6% of high-skilled, 69.1% of medium-skilled and 73.7% of low-skilled had been registered as unemployed for longer than one year).

During 2004 more than 300,000 unemployed people joined the Employment Service register, most of them registering for the first time. In the same time period approximately the same number of unemployed people left the register. This represents almost 10% of the labour force, and shows that

despite a high level of long-term unemployment, there is also significant movement away from the unemployment register.

According to information from the Belgrade employment office, 12.1% of the cohort that became unemployed in Belgrade during January 2003 left the register in the first six months, 38.5% left in the first year and 64.0% left in the first two years. Against expectations, the probability of leaving the register is higher in the second half of the first year than in the first half. However, this is probably due to administrative routines that may postpone the recording of the exit of an unemployed person by up to six months. Changes to the computer system (requiring positive confirmation of unemployment) on which the unemployment register is maintained should eliminate this time lag.

Highly skilled people have a much higher probability of leaving the register in the first six months than less educated individuals. However, the differences are small for longer durations of unemployment. The advantage of higher education declines and eventually disappears over the period of unemployment. Younger unemployed people (less than 34 years old) have around twice the exit rate of older unemployed people.

No significant differences exist in unemployment between urban and rural areas, but the unemployment rate varies significantly between different regions. In particular, unemployment is high in Vojvodina because of a higher pace of enterprise restructuring, but also because of a large concentration of refugees in the area.

2.4 QUALIFICATION LEVELS OF THE WORKFORCE AND SKILL MISMATCHES

According to data from the Population Census 2002 (Table 6), Serbia has a lower percentage of the population with higher education than do the EU-15 (though Serbia's percentage is equal to that of the new EU Member States). However, the percentage of the population who have low levels of education is around the same as in the EU-15, and a number of positive aspects can be noted, namely decreasing illiteracy levels during the past 10 years (from 6.1% in 1991 to 3.4% in 2002), and a better educational attainment structure for the younger population groups (see Annex 3), who are the most dynamic section of the labour force. Specifically, in the younger population groups there are substantially lower percentages of people with low levels of education and higher percentages of those who have completed secondary education. However, the percentage of highly educated people (those having completed a higher level of education) has remained stagnant through different generations and has declined for men. In this respect Serbia seems to be following the pattern of the Central European countries (Czech Republic, Hungary, Poland, Slovakia and Slovenia) that have achieved improvements in the development of their medium-level rather than high-level skills.

Table 6: Educational attainment rate (in %) of the population aged 25–65 years in 2002

	Low	Medium	High
Serbia total	36	49	15
Men	30	54	15
Women	41	45	14
EU-15	35	43	22
New Member States	19	66	15

Source: 'Serbian census 2002', ETF Key indicators database, Eurostat

Low: completed primary education or less (ISCED levels 0–2)

Medium: completed secondary or post-secondary non-tertiary education (ISCED levels 3 or 4)

High: completed tertiary education (ISCED levels 5 or 6)

As well as adequate levels of education, the workforce also needs the actual skills and competitiveness that will support economic restructuring. There are no data available on the skills and competitiveness of the labour force in Serbia. However, the long years of disinvestment in new technologies and modern methods of work organisation within enterprises, as well as hidden unemployment due to labour hoarding in state-owned enterprises, involvement in low-skilled activities in agriculture and the informal sector and long-term unemployment for certain population groups, suggest that a large section of the labour force may have formal qualifications but have lost (or never acquired) the skills required to ensure their continuing employability in a changing economic environment and adaptability to support economic restructuring. The NES has reported a slightly increasing number of unfilled and 'hard to fill' vacancies during recent years, which may be linked to a

lack of appropriate skills or motivation among registered unemployed people. On the other hand, ad hoc surveys among employers undertaken through relevant CARDS programmes¹⁸ demonstrate that, for the moment, there is not a great deal of emphasis on specific technical and occupation skill gaps (except in dynamic sectors such as healthcare, banking and financial services, and enterprises that have introduced new technologies), while generic skills such as communication skills, capacity for team work, reliability and a positive attitude to work are often seen as lacking. Knowledge of foreign languages and IT skills are also often highlighted. The absence of significant skill shortages may be because technological change has not yet taken place throughout much of the economy, and production of higher-value-added goods and services is developing only slowly. It is expected that more intense economic restructuring (tackling not only property rights but also the introduction of new organisation methods in enterprises and the production of new products) will quickly lead to skill gaps or deficiencies.

The initial education system

The outdated initial education system and its lack of flexibility to adapt to the changing needs of the market and society are broadly recognised as impediments to the development of a dynamic, entrepreneurial, adaptable and well-educated and -trained labour force. The problem stems from inadequate quality and a need for modernisation of primary education¹⁹. Although there is almost universal participation in compulsory education in Serbia (the participation rate for 7–14-year-olds is 99.8%), evidence of the insufficient quality of the compulsory education system can be found in the PISA 2003 results, in which Serbia holds one of the lowest positions in terms of reading capacity and proficiency in mathematics for 15-year-olds. Furthermore, according to estimates of the Ministry of Education, around 7% of the children who complete primary education do not continue their studies at secondary level.

However, the main problem lies with the secondary education system, which is structured around educational profiles and course contents that correspond to an already obsolete economy based on wage employment in large enterprises. Vocational schools are underfunded, possess old equipment and provide narrow and early specialisation, and their teachers are not generally up-to-date with technical and didactical skills. Enrolment in secondary education is centrally planned on the basis of predetermined places for each school and on profiles that do not correspond to either the preferences of students or the needs of the labour market. Although efforts have been made by the Ministry of Education during recent years to ensure a better correspondence between student preferences and available places, discrepancies still remain.

For example, Ministry of Education data on student preferences and available places, taken from the intake process to secondary education during recent years, show:

- an (unfulfilled) higher demand for general education rather than for secondary VET (though this trend has been reversed in the school year 2004/05);
- an (unfulfilled) higher demand for four-year vocational education programmes in a number of economic growing sectors: trade, catering and tourism; health and social welfare; traffic services; personal services; economics, law and administration;
- a lower demand for three-year vocational programmes in all fields of study (except in personal services);
- a large discrepancy between places offered and student preferences in the two largest vocational fields in terms of overall enrolment, i.e. electric engineering and mechanical engineering, which actually correspond to declining economic sectors.

All in all it appears that young people have different (and probably more accurate) perceptions of their career opportunities, but are often trapped by in dead-end studies by the educational provision. At the same time, the content and quality of skills and knowledge that the education system transfers to young people is consistently criticised by employers. This criticism often encompasses such issues as the lack of problem-solving skills and the skills required for dealing with real-life situations, the lack of entrepreneurial spirit, excessive theoretical knowledge and inadequate practical technical skills combined with limited capacity to apply specific techniques.

¹⁸ Here reference is made to the CARDS 2002 programme on training for unemployed and redundant workers in the Sumadija Region and the CARDS 2003 VET reform programme.

¹⁹ For a full description of the state of primary education, see the report by UNICEF in 2002.

Box 3: Description of the education system in Serbia

Compulsory education lasts for 8 years, from age 7 to 15. The first and most decisive choice for students comes at the age of 15, when those who have decided to continue their studies (around 93% of those completing primary education, according to calculations of the MoES) can choose between the following options:

- four-year gymnasium, which leads to the Matura qualification and provides the possibility of entry to university (19% of the total enrolment in secondary education in 2003/04);
- four-year vocational education, which provides the possibility of entry to university (58% of the total enrolment in secondary education in 2003/04);
- three-year vocational education (23% of the total enrolment in secondary education in 2003/04).

Secondary education is delivered in

- 127 general education schools (gymnasias)
- 333 vocational schools
- art schools.
- vocational schools for children with special needs.

Vocational schools offer a choice of around 312 profiles grouped in 15 fields.

Participation rates in education and training:

- 7-14 years old, 99.8%
- 15-19 years old, 62.5%
- 17 years old, 82.1%
- 18 years old, 57.3%.

Finally, the performance of universities is also weak, since only 11% of students graduate on time and the average length of studies is around eight years. The poor quality of the higher education system is reflected in the educational attainment levels of the younger population groups (see the first paragraph of this chapter), who do not actually acquire more higher education degrees than their parents (despite the fact that enrolment in higher education has increased during recent years). However, as in other countries, people with tertiary-level education typically show lower rates of unemployment and higher incomes (48% more than those with only secondary education). This can hide to some degree a substitution effect for secondary education graduates in terms of the high levels of unemployment, though it also demonstrates a demand for higher-level skills.

The training of the adult population

The former Yugoslavia traditionally had a well-developed system for the education and continuing training of adults both as part of the formal education system and through the network of workers' universities; training within enterprises was also quite well developed. However, during the past 10 to 15 years this training infrastructure has collapsed. It is estimated that of the 200 workers' and people's universities that existed in 1990, only around 20 to 25 are still active: these provide courses in vocational training, foreign languages and IT, though most of them have inadequate facilities and staff. At the same time there is a growing diversification of training providers, including formal education institutions (secondary vocational schools and universities), Chambers of the Economy, NGOs, private training providers and SME agencies. However, the quantity of training delivered is quite limited in view of the needs of the adult population, and its scope is relatively narrow. Training within enterprises has been reduced to a minimum. It is estimated that only 31% of enterprises offer some kind of training to their staff. Workers in SMEs and those involved in informal sector activities have few opportunities to undertake the training that would enable them to become more adaptable to the changing economic environment. Moreover, there is a general lack of quality training provision for redundant and unemployed people. Evidence from the EU-funded CARDS programme on training for unemployed and redundant workers in the Sumadija Region demonstrates that motivation seminars and training for the development of soft skills (such as entrepreneurship, communication and positive attitudes to work) for unemployed individuals are equally as important as upgrading or converting technical skills. However, there is a clear lack of capacity for the design and delivery of these types of training programme.

2.5 MAIN LABOUR MARKET CHALLENGES

Political, social and economic instability has adversely affected conditions in the labour market for many (perhaps most) people. Many have lost their former work and have had great difficulty in finding new employment in the formal economy. New entrants to the labour market face similar problems. Many of those with employment contracts are without work or pay, or are under the threat of redundancy; some work informally. In these circumstances the concept of a dual labour market with insiders and outsiders is too simple a view, or even a misleading one, of the situation in the Serbian labour market.

The previous section outlined the key features of economic activity among the Serbian population. Based on the analysis of the previous chapter it seems that the main challenges faced by the Serbian labour market are as follows.

Increasing the adaptability of enterprises in order to support job creation

The analysis demonstrates that between 2000 and 2004 the increasing pace of the restructuring process led to the destruction of non-productive jobs in the formal (mainly public) sector of the economy, which had been artificially maintained during the previous decade. This in turn has led to an increase in the number of people who have lost their jobs and reduced the capacity of the formal economy to absorb new labour market entrants (young people in particular). Given the substantial number of large enterprises that are still in the restructuring phase, the pressure on the labour market is likely to increase further.

The destruction of non-productive jobs has not been offset by increased job creation in growing and newly created enterprises. So far SMEs have been the main, though not a major, source of the net job creation in Serbia that is able to absorb laid-off workers and labour market entrants. At the same time the number of people participating in the informal economy and agriculture is high. Hence, the overall challenge for the Serbian economy and labour market is to create the conditions for faster economic growth and job creation through the creation of a business-conducive environment, including improving the capacity of enterprises to adapt to the new economic challenges.

Another challenge is to ensure the efficient reallocation of labour from old enterprises to new and growing businesses and to new forms of employment. For the moment it seems that workers (including managers) are reluctant to leave their present jobs voluntarily – even if they are poorly paid or not paid at all – and search for better job opportunities (including self-employment). They prefer to wait to receive redundancy compensation while working in parallel in the informal sector. This also includes the challenge of supporting workers affected by the privatisation process without impeding the operation of the labour market or disadvantaging others (such as young people or long-term unemployed individuals).

Attracting more people to enter and remain in the labour market, making work a real option for all

Job destruction and insufficient job creation in the formal sector has increased unemployment to high levels. However, the focus on unemployment should not be allowed to hide the problem of a growing section of the population who have a weak attachment to the formal labour market, and who move in and out of different forms of temporary employment, unemployment and inactivity. Taken together, the weak attachment to the labour market and the high volume of changes in employment status revealed by the LSMS, the scale of the informal economy and the relatively high employment rate, all point to a situation in which the normal distinctions are blurred. Many people have developed lifestyles (or survival strategies) that include multiple employment status, and readily switch between employment and unemployment and between formal and informal activities as opportunities become available. The population groups affected are mainly those with low or medium qualification levels and outdated skills, with young people being particularly vulnerable.

Although activity and employment levels (except among young people) are relatively satisfactory (i.e. comparable to those of the new EU Member States), perhaps the greatest challenge for the Serbian labour market is to increase formal employment levels and to bring people from the informal sector into the formal sector through effective labour inspection and taxation policies as well as activation

policies for those registered as unemployed. It is also necessary to remove barriers that impede the entrance of young people into (formal) employment.

Investing more and more effectively in human capital and lifelong learning

Although the lack of jobs is the biggest challenge during transition, it is not the only challenge: there are also deficiencies in the supply side of the labour market. Supply-side deficiencies are less apparent at this stage of development of the Serbian economy, and are overshadowed by the aggregate lack of jobs and unemployment. But they are no less real. Only a small proportion of the working-age population, whether employed (in private or public large enterprises, SMEs or the informal sector) or unemployed, currently have an opportunity to upgrade, update or change their skills and develop appropriate attitudes to work. At the same time young people are entering the labour market with inappropriate qualifications and are ill prepared to cope successfully with shifting demands for new and additional skills (for example, shifts towards production in SMEs, development of the service sector, and extending the use of flexible employment patterns). Furthermore, the population has experienced a significant depletion of skills during recent decades. These issues need to be addressed through a lifelong learning infrastructure. A vibrant and successful market economy with better and more jobs will not materialise in the absence of a flexible, adaptable, entrepreneurial and competitive labour force. A well-trained and well-motivated labour force with the right skills and attitudes, and with opportunities for individuals to make the best use of their skills and talents, is the key ingredient for achieving the modern, resilient economy that the Serbian government wants. The following chapter will review policies developed to address the challenges identified above and identify gaps and recommendations for further action.

3. REVIEW OF THE POLICIES AND LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS DEVELOPED TO ADDRESS LABOUR MARKET CHALLENGES

3.1 EMPLOYMENT POLICIES AS PART OF THE OVERALL POLICY AGENDA

Since 2001 the focus of government policy has been on macroeconomic stabilisation, price and trade liberalisation, the establishment of appropriate institutional arrangements for public finances, and structural reforms to key aspects of the economy and social policy.

At the beginning of the 2000s the Serbian government recognised the lack of valid employment opportunities for the Serbian labour force, as well as the risk of a (short-term) negative impact on employment from the macroeconomic stabilisation and economic restructuring process. This is explicit in the Poverty Reduction Strategy of Serbia adopted by the government in 2002, in which the creation of new employment opportunities is seen as an important measure (among others) for reducing poverty in the country. The 2001 Law on Privatisation and the 2003 SME Strategy of the Ministry of the Economy have had an impact on the numbers and types of job opportunities in the economy. The main instruments of the Ministry of Labour, Employment and Social Affairs (MoLESA) for supporting the economic restructuring process and mitigating its negative impact on employment have been:

- the development of new labour legislation;
- the work of the Labour Inspection Department (including the inspection of labour relations and health and safety protection, and ensuring business registration compliance);
- the activities of the NES;
- MoLESA's annual employment action plans, which provide the basis for the use of active labour market measures;
- the social programme for enterprises under restructuring;
- the development of a National Employment Strategy.

Labour legislation

The development of new legislation includes the Labour Law of 2001 and the Law on Employment and Insurance in the Case of Unemployment enacted in 2003. The Labour Law eased many of the legal barriers to greater flexibility in the labour market. This law is wide ranging and provides for the basic rights of employers and employees.

The legislation supports economic restructuring policies and forms part of a new landscape in which the private sector can be developed and expanded, while levels of protection are offered to those in work, consistent with other market economies. It is a policy directly relevant to employers and employees and, indirectly, to the labour market in general, as reforms lead to more jobs and greater demand for workers. However, the implementation of the law has been slow, and parliament has recently passed changes to the act. Critics of the changes believe they make Serbia less attractive to inward investors and cause unnecessary difficulties for existing businesses.

The Law on Employment and Insurance in the Case of Unemployment introduced ILO criteria for the definition of unemployment, redefined the rights of unemployed individuals and the role of the NES, and allowed the creation of private employment agencies and the setting up of national and territorial councils for employment. This law addresses the need for a modern institutional setting to deal with unemployment, though it also places new and challenging demands on the NES.

MoLESA and annual employment plans

Over the past three to four years the annual employment plans²⁰ of the MoLESA have been aimed at reducing unemployment through active labour market measures, including job search programmes, training, apprenticeships and wage subsidies. However, in general these activities are ad hoc and underfunded, and have been largely ineffective because of the absence of an agreed strategy for activating unemployed people.

²⁰ These annual plans determine the budget of the National Employment Service, including the sums for active labour market measures.

Labour inspection

A dedicated department of the MoLESA has been established to ensure compliance with labour regulation. Much of its work concerns health and safety inspection, but it is also increasingly involved in combating the informal economy and in business registration.

The social programme

In 2001 the government launched a social programme that provides compensation to employees made jobless from companies affected by restructuring, privatisation and bankruptcy. Social programmes are configured separately for each of the companies approved by the government. (For a more detailed description of the social programme see 3.2.2 below.) This programme is selective and expensive, costing CSD 5.4 billion in 2003, when 32 companies used social programme funds. The overall cost of the social programme is more than five times the budget for active labour market measures for people who are unemployed. Although the social programme eases the restructuring process its impact on the efficiency of the labour market is doubtful. There is great imbalance between the generosity of the social programme and the help available for unemployed people generally. The scale and level of assistance to individuals under the social programme is disproportionately high.

National Employment Strategy

As well as developing new legislation and actions to deal with unemployed and redundant people, since mid 2004 the MoLESA has been working on the development of a National Employment Strategy for 2005–10 (using the methodology of the European Employment Strategy) to create a comprehensive and coherent approach to the use of labour market instruments alongside the economic restructuring process. The development of the strategy has involved a number of other ministries and social partners, thus recognising the multifaceted effort that needs to be made in order to support employment and fight unemployment. The National Employment Strategy, which is now in consultation process, has identified three main goals:

- to promote sustainable employment growth;
- to enhance quality and productivity at work;
- to strengthen social cohesion in the labour market.

In order to achieve these goals, the strategy identifies areas to be addressed and proposes specific measures. Overall, the strategy is quite comprehensive, aiming as it does to address different aspects of the labour market, but at the same time it is very ambitious in the Serbian context.

Box 4: Draft National Employment Strategy 2005–10: main areas of intervention

Towards sustainable employment growth. In order to achieve this goal a combination of measures in respect of employment policy and active labour market policy are enumerated, including:

Key elements of employment policy

- a) support for direct foreign and local investment;
- b) support for entrepreneurship and improvement of the business environment;
- c) improvement of financial incentives to make work beneficial.

Key elements of active labour market policy

- d) mediation in and support for job searching and the prevention of long-term unemployment;
- e) promotion of the ability of employees and companies to adjust to change;
- f) support for professional and territorial mobility;
- g) growth of job offer and support for active ageing.

Towards enhanced quality and productivity at work. The following areas of intervention are foreseen:

- h) provision of more and better quality investment in human resources;
- i) integration of the informal sector and a reduction of informal labour;
- j) health protection and safety at work.

Towards strengthening social cohesion in the labour market. This covers:

- k) developing social agreements (including social dialogues, collective negotiations and agreements at all levels);
- l) closing discrepancies between regional labour markets;
- m) supporting gender equality in respect of employment and wages;
- n) tackling discrimination against particularly disadvantaged groups (including people with a disability, Roma people, refugees and internally displaced persons).

Assessment

Overall it appears that employment is a well-recognised issue within the policy agenda of the Serbian government and that notable progress has been made since 2000 in the development of labour market policy. The initial focus on macroeconomic policies has been complemented by initiatives that widen labour market flexibility, clarify and reinforce legislative and institutional settings for addressing unemployment, and (partially) address quality in terms of supply-side issues (most notably the Law on Employment and Insurance in the Case of Unemployment).

It is also important to recognise the shift in the policy thinking of the MoLESA away from ad hoc actions to mitigate or fight unemployment and towards strategic actions to support employment and improve the quality of the labour supply. The objectives and methodology of the National Employment Strategy under consultation demonstrate this shift.

There is also a growing recognition of the need to avoid excessively generous arrangements that damage work incentives in future social programmes. However, policies have yet to be introduced that give greater prominence to the needs of new entrants to the labour market and of those who are genuinely long-term unemployed.

The preparation of the National Employment Strategy will help to ensure a better balance of employment measures that can be taken forward systematically through the introduction of annual employment action plans. However, given the wide scope and ambition of the strategy it will be essential to develop an implementation strategy, detailed implementation plans and a financial package sufficient to cover the necessary tasks. Moreover, further negotiations among the institutions identified for the implementation of the strategy will be necessary in order to clarify their mutual responsibilities and benefits.

3.2 INCREASING THE ADAPTABILITY OF ENTERPRISES

This section reviews the main actions undertaken to increase the adaptability of workers and enterprises by focusing on efforts for (i) improving the business environment, and (ii) assisting enterprise restructuring by improving flexibility in the labour market.

3.2.1 IMPROVING THE BUSINESS ENVIRONMENT

Since October 2000 the business environment has been continuously improving as a result of such developments as increased macroeconomic stability, domestic and foreign trade liberalisation, and membership of international institutions. As a consequence of these improvements a number of foreign investors have been active in Serbia. Of particular significance for the growth of employment is the development of SMEs and changes to the income tax regime to make it more 'employment friendly'.

Support to SMEs

Support for the development of SMEs focuses more on start-ups than on SME growth. In January 2003 the government adopted the Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia 2003–08. The purpose of the strategy is to create a framework for the development of a sustainable, internationally competitive and export-oriented SME sector. There are two main strategic goals relating to the development of the SME sector and entrepreneurship to 2008: to increase the total number of SMEs and entrepreneurs from approximately 270,000 (2002) to approximately 400,000; and to create over one million new jobs in the SME sector.

The main elements of the strategy are a focus on a number of priority sectors that are capable of generating economic growth, additional employment and increased foreign earnings (in particular food processing, manufacturing, tourism and e-business); strengthening institutional support for SMEs at all levels; removing legal obstacles for business operations; and reducing the size of the informal economy.

So far, however, implementation of the strategy has been delayed. Some progress has been made in the adoption of a number of laws (such as the law on the guarantee fund, the law on registration of

business entities, the law on a registration agency and the law on bankruptcy) that facilitate the establishment and stimulate the performance of SMEs. From 1 January 2005 registration time limits and the costs of registration were significantly reduced as a result of the enactment of new laws based on the one-stop-shop principle.

Support to SMEs has also been provided through the establishment of the Republican Agency for the Development of SMEs and Entrepreneurship (ASMEE), which operates within the framework of the SME Strategy; a network of 14 regional enterprise development centres, with a further 30 sub-centres, covering 70% of the Serbian territory, has been established, mainly through donor funds. The relation between the business support centres and the ASMEE, which is supposed to coordinate their activities but does not really have control over their business, is an issue that will need to be clarified, as will the potential for future sustainability (after the end of the donor support) of these centres. Furthermore, as reported in the OECD-EBRD 2004 report 'Enterprise Policy Performance Assessment – Serbia and Montenegro', there is still scope for improvement of advisory services to SMEs, as private consulting firms offer standard packages for the preparation of business plans, and these do not sufficiently take into account the needs of individual firms.

Finally, efforts have been made to increase access to funds for SME development. A micro-finance bank, ProCredit Bank (previously Micro Finance Bank), has been set up using donor funds, and there have been a number of donor-supported credit lines (such as the Revolving Credit Fund, European Fund for Serbia and the EIB Global Loan Facility). However, it appears that SMEs still have limited access to funds because of such factors as (at least perceived) high interest rates²¹, requirements for collateral and availability of funds. This is demonstrated by the fact that in 2003 54% of enterprises secured more than 70% of their working capital from their own sources and another 32% secured more than 50% of their working capital from their own sources²².

Taxation

Progress has also been made in the field of taxation: since 2000 income tax has been reduced to 14% for all and 10% for annual incomes over CSD 960,000 (€12,000). Serbia has a low corporate income tax rate (14%) compared with other EU countries and countries from the region. However, if taxation is taken together with social contributions, the overall taxation burden rises to 48.2% of the total labour cost (see Annex 4), which is relatively high compared with the EU-15 average (37.8%). As tax rates have been reduced, a closer look at the level of social contributions is necessary, as these appear to be the main burden of the total cost of labour. VAT was introduced in January 2005.

Assessment

Despite the improvements noted in the business environment, there remain a number of serious weaknesses in the support given to businesses. These include:

- uncertainty regarding the future of nationalised property; building land regulations that make the acquisition of municipal land practically impossible; and lengthy and complicated procedures lasting between six months and a year for the construction or alteration of buildings, which discourage investors, in particular foreign investors;
- an absence of appropriate anti-monopoly legislation and institutions for its enforcement; existing rules and regulations, for example those relating to mergers and acquisitions, actually nurture monopolistic situations and restrict competition;
- perceived political risk – linked to the sustainable future of the State Union of Serbia and Montenegro, the final status of Kosovo and occasional tensions in Vojvodina and Sanzrak – is an obstacle to attracting new investment.

The above weaknesses are related to political issues that will take time to resolve. For example, the clarification of the municipal building land regulations will require a change in the constitution that is expected to be a long-term exercise, in particular because of the present uncertainty regarding the country's borders. Other weaknesses demonstrate that Serbia is in only the early stages of its transformation into a fully functioning market economy; examples include the absence of proper anti-

²¹ According to the SME Panorama for the CARDS Region (AMS 451 Lot 10 No 2003/75117), the credit terms and conditions are fairly expensive: up to €10,000, an interest rate of 2% per month for a term of 18–24 months; for small enterprises 1.75% per month; for medium-sized enterprises 12% per annum up to 36 months. The ProCredit Bank also charges a 2% commission.

²² 'Investment Climate conditions, regulatory costs and productivity', Institute of Economics and FIAS, 2003.

monopoly legislation and of appropriate laws and regulations relating to mortgage claims, decisions on nationalised property, and the need to move faster in these areas in order to improve the business environment.

Weaknesses relating more closely to the development of SMEs include:

- bureaucratic, complex and lengthy enterprise registration procedures (registering an enterprise takes 43 days), although the new laws introduced in January 2005 do simplify matters;
- high interest rates and an inadequate supply of credit, which are partly the result of the high levels of risk for banks of not recovering their loans because of inappropriate legislation which protects the debtors more than the creditors;
- the absence of more significant tax relief for start-ups; unfavourable financial credits; and frequent corrupt practices by government bodies;
- high taxes and contributions on wages, amounting to around 72% of net wage (or around 48.2% of the total labour cost), which discourage the registration of employees.

In order to support SME development it is important to promote the implementation of the SME Strategy further, as well as the implementation and enforcement of the new laws, and to facilitate access to funding for SMEs. Further developments in this area could also have an important impact on the reduction of the informal sector in which (as demonstrated in Chapter 2) employment is also created. A favourable SME environment can be an opportunity for the registration and expansion of subsistence and informal enterprises that have potential for development.

Finally, all discussions of the review team with actors at national and local level focused on new start-ups. Although this is an important policy objective that has the potential to draw people out of unemployment, a significant employment boost could also be achieved by the faster growth of existing SMEs. It seems that this issue has yet to attract sufficient attention from policy makers.

3.2.2 ASSISTING ENTERPRISE RESTRUCTURING BY INTRODUCING FLEXIBILITY IN THE LABOUR MARKET

The main efforts towards enterprise restructuring have been made through the privatisation process and the work of the Privatisation Agency. Enterprises difficult to privatise undergo restructuring covering:

- status-related and organisational restructuring;
- financial restructuring (different modalities of debt settlement);
- downsizing (preparation and implementation of the social programme);
- privatisation (i.e. the process of sale of the property of the enterprise, including equipment and means of transportation).

The restructuring process is conducted by the Privatisation Agency with the assistance of domestic and foreign consultants. The EC-funded CARDS programme, implemented by the European Agency for Reconstruction and other donors, is funding restructuring programmes for large enterprises. However, enterprise restructuring is also assisted through a number of labour market measures that ensure the flexibility and mobility of the labour force towards more productive jobs. As identified in Chapter 2, one of the major challenges for enterprise restructuring is the large number of redundant workers and labour reallocation towards more productive jobs, while at the same time avoiding the creation of a two-tier labour market with overprotection for insiders (those with jobs) and little protection for outsiders. A careful balance between security and flexibility in the labour market is essential for achieving successful labour reallocation and enterprise restructuring.

The new Labour Law provides basic protection and rights for employers and employees, and attempts to balance the need for flexibility of employment with the security of workers. Its overall aims are to promote the efficiency of the labour market by removing overprotection of employees, and to address:

- the problem of poorly motivated employees in state and socially-owned enterprise;
- low levels of compliance in the private sector with legal requirements that benefit private sector workers.

The law requires that the employer and the union – where representative under the law – negotiate on collective agreements, but not that they must reach agreement. In the absence of a collective agreement the relationship between employer and employee is determined by the employer's

rulebook and/or the employment contract. The rights of employees to a works council or participation in management have been abolished.

Flexibility is promoted through the variety of employment contracts available. Temporary employment is permissible for up to three years, after which employment is deemed permanent. Also permissible are trial periods, activities outside the normal workplace and special terms for new employees. The law does not regulate employers' authority over the working arrangements of employees, though it limits overtime working to a maximum of four hours per day, and prescribes minimum breaks from work, paid annual leave and the right to paid leave of five days per year.

The level of employee pay during sickness absence has been reduced under the act from 80% of salary to 65%. Equal pay for work of equal value was introduced, as was the process for determining the national minimum wage. Employment can be terminated on a number of grounds relating to unsatisfactory performance and behaviour, and where the employer no longer has a business need for the worker. In this latter case the employee has a right to severance pay depending on their years of service. The Labour Inspectorate provides protection of employees' rights.

The Labour Law also deals specifically with the rights of redundant workers in the process of restructuring. Each enterprise that has more than 50 employees and that intends to cancel the labour contracts of at least 10% of its employees as a result of economic, technological or organisational changes must draw up a programme to address the redundancy problem. Although the employer is obliged to seek the views of the representative trade union on this programme, these views do not have to be respected. Should the labour contract be cancelled, the employer is obliged to pay out severance pay, the amount of which depends on years of service. The minimum amount, two month wages, is appropriate for employees with up to 10 years' service, and the maximum amount, five months' wages, for employees with more than 30 years' service. Employers may pay larger amounts, depending on their resources. Employers who have no funds for severance pay can call upon funds earmarked by the government for this purpose. Employees who lose their jobs during restructuring have the right to pecuniary compensation, old-age pension insurance and healthcare. In evaluating bids in the tender privatisation process, the social programme is considered as an integral part of the offer.

Assessment

Overall the new Labour Law has simplified the previous regulations, reduced state intervention in the employment relationship and introduced greater freedoms for employers and flexibility of employment patterns. However, the most recent (2005) changes to the law have added some additional requirements – including that employers are required to pay for the cost of travel to work for employees, for holidays and for a midday meal – that directly affect the cost of labour for employers. Notwithstanding legal and policy frameworks, transition countries with thriving informal sectors often have difficulty in promoting flexibility in their formal sectors. This appears to be the case in Serbia. As demonstrated in Chapter 2, overall the flows between employment, unemployment and inactivity point to a fairly dynamic labour market, though there is a marked difference between the formal and informal sectors. The informal economy will always be more flexible than the formal economy because of the absence of regulation and therefore of restraint on market forces. The informal economy reveals most clearly the essential truth of the labour market: that it is a market with buyers and sellers where jobs appear and disappear depending on the prices sought and offered. Given that the legislative framework is no longer unduly restrictive, other factors are affecting flexibility in the formal labour market. There is reluctance on the part of many employers to terminate employment even though they are able to do so legitimately within the Labour Law. This is variously regarded as being part of the culture, or because employers believe that whatever the law says, it is too much trouble to try to discharge an employee. Workers in the large state companies – even those without real jobs or salary, and those who may also be working in the informal economy – are often reluctant to leave their current jobs and take up other formal employment, probably for fear of missing out on benefits from the social programmes linked to company restructuring.

Further thought should therefore be given to the impact of the social programme on the allocative efficiency of the labour market. It is common for EU states and other countries in the region, regardless of their commitments to the rigours of market economics, to create special social programmes for industries in structural decline. However, this is usually undertaken alongside well-funded activities to assist unemployed people in a reasonably balanced way. In Serbia the social

programme is not accompanied by any substantial help to unemployed people in general. It is a further manifestation of the contrast between the protection afforded to those with jobs in state industries (often called 'insiders') and the comparative lack of opportunities for those who are without work ('outsiders').

From the perspective of a company, labour flexibility comprises:

- (i) adjustability of labour already employed by the firm in terms of working hours, working time, leave and holidays; adjustability of numbers employed; ability to reorganise methods of production;
- (ii) the skills and adaptability of the workforce;
- (iii) labour costs.

Despite the fact that the Labour Law provides for flexible forms of work such as part-time, temporary and seasonal work, diverse patterns and forms of employment are not yet common in Serbia. Shift working is present in many of the large industrial publicly-owned companies and there is a significant level of weekend working. There is relatively little evening working. Part-time work is almost totally absent, a situation that is typical for the region. Seasonal work exists in the agricultural industry, much of it informal, but otherwise fixed-term contracts and temporary work are rare. This is not to say that employers do not recruit people on temporary contracts: they do. But such practices appear to be more about avoiding the requirements of employment regulations in respect of permanent employees than about the nature of work organisation.

The adaptability of workers and the acquisition of new skills by existing employees is an area of considerable weakness in Serbia, in common with most other countries in the region. As already mentioned in Chapter 2, only a very small proportion of the population over 34 years of age is in any type of training. Many enterprises are reluctant to invest in training. At least for the time being they are able to recruit people with skills and experience who have been made redundant over the past few years. Public funds directed into training activities for adults through active labour market policies are modest. The shortcomings in lifelong learning arrangements cannot be addressed in isolation from the modernisation of the vocational and training system, and will take many years to remedy even if well-directed and consistent policy is pursued with determination. This aspect of labour-supply flexibility is especially significant for transitional economies. It underpins quality of work and adaptability.

Labour costs in Serbia are high by the standards of the region, and have increased over recent years well beyond improvements in productivity. According to data from the Ministry of Finance, average net wages are three times higher than in January 2001. On the other hand, the erstwhile high wages in public enterprises are moving closer to the average wage of the economy. Serbia has minimum wage legislation. In July 2004 it was agreed by the government and the 'Nezavisnost' Trade Union Confederation, the Association of Free and Independent Trade Unions of Serbia, the Employers' Union and the Association of Industrialists and Entrepreneurs that the minimum wage be increased from CSD 31 to CSD 35 take-home pay per working hour. It is revealing and characteristic that the minimum wage should be expressed in these terms. Although the transfer of income taxation to the gross wage system took place in 2001, there is insufficient understanding or awareness of the notion of gross pay. This is harmful if it leads to a position where only employers' (gross labour) costs are affected by changes in personal taxation or social contributions. At worst it can frustrate government income redistribution and labour market policies. The minimum wage is renegotiated and reset every six months. The current minimum wage of CSD 35 take-home pay per working hour corresponds to 45% of the average wage (the average wage in January 2005 was CSD 14,260, or €178, per month), and to 22.5% of the unemployment benefit (unemployment benefit is 50% of the average wage).

3.3 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

As demonstrated in Section 2.2, the overall level of economic activity among the population is not a matter of concern, except with regard to young people, who have extremely low activity and employment rates. However, given the extent of the informal economy, the challenge is to attract more people into the formal economy and to motivate those who are unemployed to search for a job in the formal sector.

It is useful to assess passive and active measures, and their mix, intended to motivate unemployed people to search for work in the formal economy, as well as specific measures for special groups (people with a disability and ethnic minorities, particularly Roma people). An assessment is also made

of the capacity of the NES to provide assistance (job broking, advice, guidance, counselling and job search support) to those who are unemployed.

Passive measures

The unemployment benefit system in Serbia is well designed in most respects. The duration of benefits is related to the number of years of payment of unemployment insurance contributions. Unemployment benefit is paid for three months to people with one to five years of contributions. At the other end of the scale, benefit is paid for 24 months to people aged over 55 with 25 years of contributions. The small proportion (around 10%) of unemployed registrants who receive unemployment benefit is partly accounted for by the relatively large number of long-term registered unemployed people, many of whom have exhausted their unemployment benefit rights. The proportion receiving benefits would be far greater if only those people actively seeking work were registered as unemployed.

Generally the duration of unemployment benefit is a more significant disincentive to searching for a job than the actual level of benefit. In any event the level of the benefit as indicated by the benefit replacement rate²³ is not high, at around a half of the previous average salary. The duration of benefit payments for older workers is unusually long. But perhaps the most significant feature of the current payment of unemployment benefit is that it is delayed by six months from the date of claim. This puts a serious question mark against the efficacy of benefit as either a social relief or a labour market instrument. People will be more reluctant to leave jobs because they fear being without income (unemployment benefit) for the first six months. Those who do become unemployed may need welfare assistance, and many will be driven into the informal economy.

Families in need, mainly because of a lack of earned income, can claim welfare payments from the Centres for Social Welfare. Around 48,000 families with 113,000 members are covered by these arrangements. The level of the payment²⁴ is modest and unlikely in itself to affect significantly the behaviour of unemployed people of working age. It is not clear from available information how many people registered as unemployed are also members of households in receipt of welfare payments. Given that such payments are a form of unemployment compensation (for people of working age capable of employment), the picture of social welfare for people in the labour market is, in this respect, incomplete. There is clearly an overlap between the unemployed clients of the Centres for Social Welfare and those of the NES.

Table 7: National Employment Service budgets and expenditure (CSD million)

	2000		2001		2002		2003		2004	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Active measures	834	551	1,526	1,057	770	1,401	1,128	880	900	410
Passive measures	834	758	2,132	2,428	5,729	4,716	7,881	7,890	12,963	12,596
Other expenditure	322	413	806	523	620	729	766	937	1,596	1,549
Total	1,990	1,722	4,464	4,009	7,119	6,846	9,777	9,707	15,459	14,556

²³ The replacement rate is the percentage of previous earnings that unemployment compensation represents. In Serbia this rate is 60% of the previous average salary for the first three months of unemployment and 50% thereafter till the benefit period is exhausted. Eligibility is time constrained and depends on the number of years of unemployment benefit contributions made by the individual.

²⁴ The level of payment of welfare is based on the number of family members. The current payment for the first family member is CSD 3,200. This is based on a proportion of the average salary in Serbia in the second quarter of 2004: for an individual, 16%, a two-member family, 22%, a three-member family, 28%, a four-member family, 30%, and a family with five or more members, 32%. The figures are adjusted monthly to reflect the CPI. The payment is available for 9 months in every 12, with a review period of 3 months.

	2000		2001		2002		2003		2004	
	Expd	%	Expd	%	Expd	%	Expd	%	Expd	%
Active measures	551	42	1,057	30	1,401	23	880	10	410	3
Passive measures	758	58	2,428	70	4,716	77	7,890	90	12,596	97
Total	1,310	100	3,486	100	6,118	100	8,771	100	13,006	100

Source: National Employment Service annual accounts for 2000, 2001, 2002, 2003 and 2004

Active labour market measures

A range of active labour market measures has been in place for some years. The planned budget for, and actual expenditure on, such measures is very variable, partly as a result of inflation trends and the build-up of accruals. In four of the five years between 2000 and 2004 the budget for active measures was underspent. The cost of unemployment benefit increased throughout the same period. The balance of expenditure between active and passive measures reflected these fluctuations. In 2000 for every CSD 10 spent on unemployment benefit, CSD 7 was spent on active measures. By 2004 the ratio had fallen to 30:1, i.e. for every CSD 30 spent on unemployment benefits, only CSD 1 was spent on active measures²⁵.

The budget for active measures (Table 7) is modest, given both the scale of unemployment and the level of expenditure (over CSD 5.4 billion in 2003) on social programmes associated with restructuring. But given the lack of proper evaluation of programmes, the case for a large expansion of these measures is not compelling. Active labour market measures have been adjusted in recent years in order to target them more closely on particular groups in the labour market, but there is still no systematic assessment of their net effect. There are two other broad concerns regarding the overall package of active measures.

First, the package is unbalanced, with large amounts being spent on a few people in some areas and relatively small amounts being spent on much greater numbers in other areas. This imbalance is reflected in the unit costs²⁶, which vary from CSD 409 for job search training to CSD 156,837 for trainees/apprenticeships (Table 8). Second, active measures should be more closely integrated with the activities of the NES in the administration of unemployment benefit, in registering people as unemployed and in the provision of employment information and advice.

²⁵ In 2003, of the total National Employment Service actual expenditure (including administrative expenditure) of CSD 9,700 million, around 880 million (9%) was spent on active measures and 7,890 million (81.3%) on unemployment benefit.

²⁶ The figures are affected by accruals from the preceding year, though the order of difference remains unaffected.

Table 8: Active labour market programmes in 2003

Programmes	Number of participants	Planned cost	Unit cost (CSD)
Job broking and motivation	20,389	8,420,400.00	412.98
Job fairs	8,027	4,002,000.00	498.57
Job search	12,362	4,418,400.00	357.42
Trainees and trainee volunteers	2,086	327,164,000.00	156,837.97
University degree	781	200,600,000.00	256,850.19
College degree	194	17,993,600.00	92,750.52
Secondary school degree	477	26,310,400.00	55,158.07
Volunteers (University degree)	634	82,260,000.00	129,747.63
Training programmes	8,614	129,652,740.00	15,051.40
Talented people	79	200,166,400.00	28,207.38
Support to employment programmes	5,996	157,667,326.51	26,295.41
Encouraging enterprise <i>Of which:</i>	3,737	102,258,400.00	25,495.26
▪ Self-employment	2,635	67,180,000.00	31,831.58
▪ Entrepreneurial centres	1,102	35,078,400.00	28,207.38
Volunteers/programme centre	2,259	55,408,926.51	24,528.08
Total	43,317	991,553,526.51	22,890.63

Source: National Employment Service

There are also particular issues in relation to individual active labour market measures.

- Over a year around 250,000 to 280,000 people join the unemployment register. Most of them have little experience of looking for work effectively within a market economy and need early assistance. But the job activation programme covered only around 26,000 people in 2003, and almost 6,900 of these participated in job fairs, which are more accurately classified under the job broking function. Thus only around 19,000 (less than 8%) of the people who join the unemployment register benefit from job activation measures in the early stages of their unemployment. The plan for 2004 envisaged only 14,591 attending job search seminars.
- The unit cost of the education and training measures (Table 8) is extremely high. In particular the unit costs and results (around 54% get permanent jobs) for trainee/apprenticeship and apprentice volunteers raise real questions concerning the justification of these sub-programmes as they are currently designed to cover both work experience and job subsidies in specific professions. Some 46% of participants do not secure employment. Some, and perhaps the majority, of those that obtain jobs would have done so without subsidies. This measure covers inadequacies in the pre-qualification training of a small number of professions, mainly medical and legal.
- The structure and use of active measures does not yet sufficiently support the activation policy implicit in the Law on Employment and Insurance in the Case of Unemployment. Activation of unemployed people should start from their first contact with the Employment Service; the active labour market measures should be integrated and targeted so that they become more intensive according to the duration of unemployment.
- Access to help in becoming self-employed should be made as easy as possible. To insist on high-quality business plans is questionable: most successful entrepreneurs, including those in the grey economy, did not start out with detailed business plans. The start-up process is usually supplier driven, with individuals offering products and services and, crucially, quickly adjusting or changing them in the light of the reactions of potential buyers. But of course those interested in becoming self-employed need information and advice before taking decisions. The scale of planned measures to encourage enterprise was greatly expanded in 2004 to cover over 18,000 people at a cost of CSD 569.67 million (see Annex 5).

Assessment

The balance of expenditure between passive and active measures does not support an activation policy and has become even more disadvantageous over the past five years, reaching a ratio of 30:1. However, there are no major flaws in the design of unemployment benefit rights except that the duration of unemployment benefit for older workers is unusually long. On the contrary, a delay of six months in the payment of unemployment benefits, combined with modest social assistance benefits

covering only a small section of the population, lead to the conclusion that there is a serious lack of a social safety net for people who become unemployed, which inevitably pushes them into informal sector activities or subsistence agriculture. Although this 'solution' may be acceptable in the short term, it is not sustainable from either an economic or a social point of view, nor is it appropriate for a country that aspires to join the EU. There is a need to develop a social safety net for those who are unemployed with timely payment of their unemployment benefit and wider access to social assistance. In order to avoid accumulation of benefits and to promote activation measures it is also necessary to link the information systems of the Centres for Social Welfare and the NES and to streamline the handling of clients common to both agencies.

At the same time there should be a better balance in the spending on active labour market measures and the social programme. Given the tight budget constraints faced by the country and the lack of evaluation of the actual effectiveness of different (costly) types of active labour market measures, these should be rebalanced towards low unit cost measures covering a larger number of people and developing the job search and employability skills of job seekers. (As already recognised, many people in transitional economies are unfamiliar with job search techniques.) For example, group information sessions²⁷ could be introduced for new registrants, as they have been in a number of other countries in the region. This is a low unit cost measure for everyone wishing to register as unemployed, and it would discourage ineligible people. The existing job search seminars should be extended to most people who remain unemployed for three months. More intensive help should be made available for people remaining on the unemployment register for nine months, through a mix of measures including job clubs (these will need to be expanded considerably beyond 2005) and remotivation seminars to help individuals re-examine their situation and experience over the preceding nine months and redefine their career goals.

The most expensive active labour market measures, including job training, should be reserved mainly for people unemployed for at least 12 months, and in the case of public works programmes for at least two years. The large expansion of the scale of measures to encourage enterprise is understandable in a labour market where formal jobs are scarce. However, there are real questions about the effectiveness of these measures in producing the desired outcome of a significant net increase in employment and about the crowding out of an expansion in activation measures.

It is for exactly these kinds of reasons that it is important to establish a system to monitor and evaluate the effectiveness and efficiency of active labour market measures. The EU-funded CARDS 2004 Employment Reform programme and the World Bank/DiFD project are introducing evaluation methodologies, but it is important that the MoLESA and NES ensure a permanent monitoring and evaluation system.

3.3.1 SPECIAL GROUPS

People with a disability

The laws, policies and programmes for people with disabilities have generally been well developed, and provide a range of assistance to help such people integrate into the normal workplace. In early 2003 there were almost 20,000 people with disabilities registered as unemployed in Serbia, 2.1% of the total number of people unemployed. Around 12% were war veterans and 68% had previously been in employment. All unemployed people with disabilities, regardless of their disability, have the same rights as other unemployed people regarding employment opportunities. The NES seeks to place people with disabilities in the open labour market rather than in segregated and sheltered conditions, as this is seen as the best way of ensuring that they take their rightful place in normal work and society. A group of experts was set up in 2002 to provide special support for people with disabilities. These experts cooperate closely with other institutions and associations in the field.

Within the active labour market policies there are special programmes for the employment of people with disabilities. First, there are subsidies within (and towards) investment programmes for new jobs or for adapting existing ones to the work abilities of the people with disabilities, and for setting up new enterprises. The funding for these work places is three times higher for people with disabilities than for other people. Second, the wages of people with disabilities are subsidised for a period of one year, usually to 80% of the average national earnings. During 2002 some 100 unemployed people with

²⁷ The sessions last around 1 hour 30 minutes and cater for around 20 people at a time.

disabilities were given assistance under these arrangements. The assessment of work capacity is carried out by the authorised healthcare organisation, based on a special agreement with the NES.

The employment of people with disabilities under the employment programme has mainly taken place in the private sector. New employment in special workshops was reduced to a minimum, not only because of the policy of placing people with disabilities in open employment, but also primarily because of the difficult financial circumstances experienced by many of these individuals. Some people with disabilities receive benefits that are higher (or only slightly lower) than the earnings they expect from work, especially those with poor levels of education. This has a demotivating effect, and a number of people with disabilities remain in their jobs for only a short period of time, especially those working in the open economy, before returning to the unemployment register.

Ethnic minorities

The data on ethnic minorities in the labour market is sparse, and is widely regarded as unreliable. There are adequate laws that make discrimination on ethnic grounds illegal. The position of Roma people is commonly acknowledged to be extremely difficult as regards employment in the formal economy. Roma women face the double difficulty of being members of the Roma national minority and being female. The MoLESA has developed a comprehensive Employment Action Plan (2005–15) for Roma people, including measures for the improvement of their entrepreneurship, revitalisation of traditional Roma occupations, incentives to formalise their informal sector activities, training to increase their employability, measures to increase their motivation for work, ensuring their employment in public institutions at local and state level, improvement of legislative provisions and measures for raising awareness among the non-Roma population. However, funds for these initiatives have not yet become available.

3.3.2 IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF THE NATIONAL EMPLOYMENT SERVICE

The institution

The NES is a single national body with 296 organisational units at national, regional, provincial (Vojvodina only) and municipal levels. Besides the central office there are 4 large branch offices serving the main urban areas, and 16 (employment) service offices within a total of 132 territorially organised employment offices. The management arrangements, including the allocation of resources, are hierarchical and services are uniform, with little local discretion.

The NES is regulated by various laws and by-laws²⁸ including those on work organisation and systemisation. It is overseen by a management board comprising 15 members appointed by government²⁹. A government-appointed three-member supervisory board including the general manager deals with operational issues. The NES is financed from insurance contributions at a rate of 0.55% from employees' incomes and a matching amount from their employers. The finance from this source is variable and difficult to predict accurately. In 2002, for example, it was CSD 0.73 billion, which was less than the NES had predicted in its financial plans. Moreover, the revenue from insurance contributions now consistently falls well below the levels of expenditure unavoidably incurred by the NES, and the government undertakes significant transfers from the state budget. However, the NES still has difficulty in matching revenue and expenditure, with the result that increasingly long delays have built up in the payment of unemployment benefit.

The organisation and its staff

Around 1,670 people are employed by the NES in Serbia (excluding Kosovo and Metohija). Most of these (1,420) work in the branch network and over 220 work in the central office. The staff within both central office and the branch and service offices are organised along functional lines: 737 staff work on activities associated with mediation, some 71% of all employees in employment offices, and an additional 117 (9%) deal with unemployment benefit. These core services together account for little

²⁸ These included the Convention on Rights of the Unemployed, the Law on Labour, the Law on Employment and Insurance in the Case of Unemployment, and the Law on Record Keeping.

²⁹ The 15 members comprise one representative each of trade unions, of employers' associations, of organisations for unemployed people and of employees of the National Employment Service, with others appointed by government on the advice of the Minister of Labour.

more than a half of all of the staff employed by the NES. Research into the actual work³⁰ carried out by mediation staff – almost all of them advisers – revealed that only 15% of their time was spent advising individuals and that 40% went on record keeping. This means that only around 7.5% of all NES aggregate staff time is devoted to one of its key functions.

The level of educational qualification of NES staff is high. Over 40% have university degrees and over 50% have college diplomas. Most are economists, lawyers, pedagogues, sociologists or social workers. Few have experience of industry and commerce. Among mediation staff around 90% have received some training in foreign languages, the use of IT or business communications. There is little or no training available in the skills required for dealing effectively with unemployed people, especially interviewing and client-handling techniques. Overall the staff of the NES are underdeveloped, particularly the counsellors but also many of the managers, for the transformation task they face.

The infrastructure

The information systems in the NES are inadequate for policy monitoring, evaluation and development, for managing the business and for supporting front-line staff in their operational tasks. Some of this is a consequence of deficiencies in the IT systems. But the underlying reason is the absence of a proper specification of efficient and agreed business processes and the precise information needed to support them. The lack of clear and efficient business processes is evident (and, on the whole, acknowledged) throughout the organisation. Double handling of data is common in employment offices. Data standards are inconsistent, systems functionality is too narrow, and IT hardware is outdated and unreliable.

Basic buildings infrastructure is in need of enhancement: although parts of its network are of satisfactory standard, this is not universally the case. Some offices are of a poor standard and the conditions in the central office of the National Employment Service are badly overcrowded for many of the staff working there.

Assessment

The main challenge

The NES has an unmanageably large number of registrants in relation to the number of staff. Counsellors have caseloads of 2,000 or more – among the highest of transitional countries and many times the average in EU countries. The very limited amount of time available for each client allows for only the minimum legal requirements to be undertaken. This is barely adequate for confirming that the client's circumstances meet the requirements for being registered as unemployed. It is inadequate for confirming the appropriate behaviour from clients: that they actively seek work. Less and less time is available for genuine job seekers and for people, especially those who are in (or in danger of) long-term unemployment, who need support from the counsellors. The overall result is that genuine job seekers get little help, those who should not be on the unemployment register are not challenged, the administrative unemployment figures are grossly inflated and the NES cannot fulfil its central role efficiently as a key instrument of labour market policy.

This is evidenced by the substantial discrepancy between the labour force survey and the registration data, which indicates large numbers on the unemployment register who should not be there. It is also the personal opinion of the staff of the employment offices, based on their everyday experience. Accordingly, 'decluttering' the registers of people who are not unemployed and who have registered simply to gain access to the health insurance is one of the first tasks that should be fulfilled by the NES. The new Law on Employment and Insurance in the Case of Unemployment provides the legal framework for tackling the issue. Article 4 now makes clear that registered unemployed people should be actively seeking work and be ready to provide evidence that they are doing so.

³⁰ 15% on advising individuals; 20% on mediation; 0% on choice of profession; 15% on liaising with companies; 40% on record keeping; and 10% other. Source: National Employment Service Study.

Improving the service

Strengthening the front line

The NES senior staff recognise the need to improve the service. It is difficult to form a precise view on the current levels of operational efficiency, especially in the absence of indicators based on the relationships between inputs and outputs, and without the definition and measurement of service standards and external client surveys. The number of staff in the NES is small in relation to the size of the unemployment register. But the allocative efficiency of the organisation – the efficient deployment of resources to optimise desirable outputs – is questionable. The central office is large in relation to the size of the field network and the total staff time spent dealing with unemployed people on the front line is extremely small. Efficiency and quality of service could be improved markedly by putting more NES staff on the front line to deal with clients and remove people from the unemployment register who should not be there. A dramatic reduction in the ratio of mediation staff to unemployed people should be possible.

Removing peripheral activities

Further improvements in efficiency could be generated by taking away some of the non-employment-related incentives that encourage people (who are not looking for work) to join the unemployment register. Chief among these is the requirement for jobless people to register as unemployed in order to obtain basic health insurance. Abandoning this requirement is a fairly simple step that would have a serious impact on the number of people registered unemployment and hence on the unproductive workload of the NES. The extensive use of medical examinations arranged by and paid for by the employment service for people entering work should be reviewed: the responsibility for ensuring that potential employees are fit enough for work should rest with employers.

Improving business processes

The operational processes of the NES need a thorough overhaul. These processes involved too many discontinuities, multiple handing of data and a lack of integration of business events³¹. IT facilities need to be enhanced to better support operational services and to provide sound information to managers throughout the organisation. The management of the NES have an opportunity to address most of these issues in cooperation with EU and bilateral assistance.

Looking ahead

The NES has scope to improve its efficiency. Its response to rising unemployment and the artificial inflation of the unemployment register has been too passive. While its resources are stretched, they are not insignificant; if managers and staff are well trained, sensibly deployed and supported by well-designed processes and IT they can deliver policy efficiently. Looking ahead, unemployment benefit claimants will continue to grow in number as the restructuring process accelerates. The potential scale of the increase is large, though the terms of redundancies under the social programme will mitigate the effects on the unemployment register. Even so there will be increased pressures on the NES from involvement in planning and implementing social programmes and in dealing with their consequences. The introduction of performance indicators for the NES would help to concentrate the attention of managers throughout the organisation. However, an essential precondition for this is the development of a reliable management information system. Since mid 2004 the EU-funded CARDS Employment Support programme and the SIDA project on better functioning of the Employment Service have been working towards improving the efficiency of the NES through actions to tackle the abovementioned issues, though it is still early to see the results of these interventions.

3.4 INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL

It is clear from a series of interviews with officials of the Ministries of Education, Labour, Economy and Finance, as well as with local authorities, trade unions, employers and enterprises, that there is a widespread recognition that improvement of the skills of the labour force and development of human capital is vital for the social and economic development of the country. The need for modernisation of

³¹ A business event is a significant step in a process, such as an advisory interview, a new claim interview for unemployment benefit, a job application or the recording of a job notification.

the education and training system for both youth people and adults is clearly expressed by all actors. The area of further investment in education and training is recognised in the Poverty Reduction Strategy as well as in the draft National Employment Strategy. This general recognition of the importance of investing in human capital is also reflected in the increases in expenditure on education during recent years, rising from 2.7% of GDP in 2000 to 3.4% in 2003, though this has not reached yet the level of the EU average of 5%. However, it should also be mentioned that the largest part of expenditure in education (around 80%) is devoted to staff salaries. Although this is not an unusual percentage in international terms, it leaves only a small proportion of the budget for the improvements needed in infrastructure and modernisation of the education provision. Apart from the education budget, the NES also invests in training programmes for unemployed people, though the budgets are quite low. Private contributions to education are not measured.

Currently activities of the relevant ministries concerned with education and training, namely the Ministry of Education and Sports (MoES) and the Ministry of Labour, Employment and Social Affairs (MoLESA), to improve the skill development opportunities for the population (both young people and adults) focus on:

- (i) policy development (including legislative frameworks);
- (ii) review of the institutional infrastructure for policy delivery;
- (iii) pilot activities for curriculum modernisation, teacher training, assessment and quality assurance mechanisms, mainly supported by donor projects.

The MoES has been the leading actor in policy development to date. One of its first actions in 2001 was to analyse the country's education system and develop a strategic approach to education reform covering the whole formal education system as well as adult training. This work, lasting around two years, involved a relatively broad range of stakeholders, brought together in expert groups and consultation campaigns. The Education Reform Strategy of Serbia³² sees the modernisation of the education system as part of the overall socioeconomic development of the country. The main principles of the reform include:

- (i) development of a responsive, decentralised, accountable and transparent system;
- (ii) promotion of lifelong learning and learner-centred teaching;
- (iii) professional teaching staff;
- (iv) introduction of standards and evaluation;
- (v) development of schools and learning communities;
- (vi) values of peace and tolerance;
- (vii) equity and inclusion of minorities;
- (viii) investment in equipment and teaching aids.

The areas identified for further work cover governance, curriculum reform, teacher training, assessment, evaluation and quality. In particular, the strategic priorities for VET reform encompass:

- (i) decentralisation and democratic school management;
- (ii) aligning VET with the future needs of the economy;
- (iii) modernisation of curriculum delivery and pedagogy (critical thinking, teamwork, creative application of knowledge);
- (iv) devolving education management to local government³³.

The first step towards the implementation of the reform strategy was the Law on Education in June 2003, which reflected the principles and main instruments of the Education Reform Strategy and introduced a number of changes to the previous system, including a new institutional setting that could ensure broader involvement of key actors in policy making for the modernisation of the education system and its implementation. This included provision for the establishment of three councils³⁴, including a VET Council that would ensure dialogue among different stakeholders, and seven specialised professional institutions^{35,36}, including a VET Centre that was intended to be the main

³² 'Quality Education for all: A way towards a developed society – Education Reform in Serbia, Strategy and Action Plan', Ministry of Education and Sports, February 2002.

³³ 'Reforms of Secondary Vocational Education and Training: From Discussions to Realisation', Ministry of Education and Sports, February 2002.

³⁴ The three councils were the Education Council, the Council for Vocational Education and the Council for Consensus Building in Education Policy.

³⁵ During the 1990s all professional education institutions were closed down and all authority was held by the Ministry of Education.

professional institution for supporting VET modernisation, through the revision of existing educational profiles, the development of a new curriculum concept and curricula, skill needs identification, standards, provision of training to teachers and trainers, consultations with social partners, monitoring of the implementation of the reform process, evaluation, assessment and research.

However, the change of government in March 2004 brought the education reform to a (temporary) halt, as the newly appointed Ministry of Education was in disagreement with a number of points of the previous strategy (mainly in the fields of primary and general secondary education), and particularly with certain provisions of the June 2003 Law on Education. A new law was adopted by parliament in May 2004 that introduced a number of changes, including:

- the abolition of all councils and the establishment of a new National Education Council with heavy academic membership and extremely small representation from social partners and other economic actors (out of the 42 members of the council, three are from the labour market side, namely one representative each from the Employment Service, the trade unions and the employers' associations);
- the integration of six out of the seven centres under the Institute for improvement of Education (the Evaluation Centre has remained separate); the scope of the VET Centre has been redefined to exclude adult training, and now includes artistic education, though its functions remain quite unclear.

On the other hand, the ministry accepted the principles and strategic directions of VET reform as formulated in the paper 'Reforms of secondary vocational education and training' (2003) and actually worked (with the assistance of the EU-funded 2003 CARDS VET Reform programme) on the development of, and approved, a concept paper for VET that builds upon them. Furthermore, with support from the VET reform programme a green paper on strategic developments in Serbia, 'Policy and strategy for VET in Serbia', was launched for public consultation in February 2005. The green paper is comprehensive and deals with issues of VET supply and demand, assessment and quality assurance, teacher training, finance, and national VET planning and governance. It covers both initial training for young people and adult learning. It recognises the need to adapt VET to the developing needs of society and the economy by adapting the curriculum concept and learning methods to produce the competences and core skills required in a market-oriented, dynamic, changing economy and to respond to well-defined occupational standards in current and emerging fields of work. In response to this need a new curriculum concept has been developed, and piloted through the EU-funded CARDS VET Reform programme, following a modular approach based on learning outcomes and drawing upon predefined occupational requirements. The development of a national qualifications system to bring the education system closer to economic and societal needs is also identified as a priority for future work.

Work has also started in the field of adult education and training, a field overshadowed by the work on secondary VET, and rather neglected, through the development of a green paper, 'Policy of Development of Adult Education in Serbia'. This green paper, which was also submitted to a consultation process in February 2005, sets out four objectives for further work:

- (i) creating effective means for social partners to participate in adult education (including partnership building among different government institutions and social partners, decision-making mechanisms at national and local level);
- (ii) sharing responsibilities for adult education between the relevant ministries and their agencies;
- (iii) developing relevant training programmes for adults (ranging from basic skills courses to second-chance training programmes, labour market training programmes, requalification, and upgrading of technical skills);
- (iv) developing the institutional infrastructure for adult education and training (including legislative framework, funding mechanisms, accreditation and certification system, monitoring and quality assurance).

Although the paper is very much inspired by supply-side considerations of adult training, it provides a good starting point for negotiation among different actors and a framework for specific actions that

³⁶ The seven professional institutions were (i) the Centre for Education Quality Appraisal (the Evaluation Centre), (ii) the Centre for the Approval of Education Programmes (the Accreditation Centre), (iii) the Centre for the Professional Development of Education Employees/Teachers, (iv) the Centre for Vocational Education and Adult Education, (v) the Centre for Artistic Education, (vi) the Centre for the Development of Curricula and Textbooks, and (vii) the Centre for Education of Persons Requiring Special Social Support.

support training provision (such as the establishment of an accreditation system and development of model training courses).

In parallel with the debates on the strategic directions of education policy, the modernisation of the institutional setting and the legislative work, a number of pilot activities have been launched (in particular through donor funds) that certainly develop local capacity for change and modernisation. These initiatives tackle:

- modernisation of curricula in six sectors in order to make them more relevant to the needs of a changing labour market;
- introduction of new assessment methods;
- teacher-training activities relating to the implementation of new curricula;
- capacity building of schools to make contact with employers through the skill needs analyses;
- introduction of entrepreneurship modules into the curricula;
- capacity building of stakeholders to understand the challenges of skills development;
- capacity building and transfer of expertise in the development of short courses for adults (mainly unemployed and redundant workers);
- modernisation of the training infrastructure for adults through the transformation of secondary vocational schools into adult training centres.

Assessment

Serbia is still in the early stages of setting up an education and training system able to support its economic and social development. The first steps of this process were quite promising, but frequent ministerial changes followed by either changes of direction or inertia have led to loss of momentum in education reform. Changes of government are normal and desirable in a democracy, but frequent changes of direction in education policy and reform can be quite harmful, as the implementation and impact of reforms are long term. A thorough consultation process for future decision making is desirable in order to avoid disruption of this kind in the future. The green paper for VET prepared by the MoES has involved 18 different stakeholders, and during the discussions towards the preparation of the white paper there will be the opportunity to involve more actors. This should be seen as an opportunity for consensus building and for promoting continuation of reforms.

The work that has been carried out up to now, which is expressed in the abovementioned policy papers and which includes problem analysis, definition of objectives for modernisation and change of the education and training system, and searching for solutions and new approaches, demonstrates that Serbia is quite advanced in terms of conceptual thinking, terminological clarity and overall grasp of different components of a modern VET system. The question is to what extent the implementation of the ambitious reforms are feasible in the current context, taking into account the limited capacity for implementation (at both national level and education and training provider level) and the limited funds available. Further work on policy development will need to give a greater focus to the identification of the main constraints and barriers and ways of overcoming them, and develop pragmatic action plans and monitoring mechanisms for their implementation.

The main declared principle of education reform in Serbia, in particular in the field of initial and adult training, is to support the country's social and economic development. The instruments that are proposed for the achievement of this objective – including the VET Council, curriculum modernisation, the development of a national qualifications framework, and school enterprise cooperation – are valid, and all support the development of cooperation among different actors. For the moment it seems that there is room for cooperation and goodwill between different partners (ministries and government agencies, employers' associations and trade unions, Chambers of the Economy, and local government). Moreover, the two main partners for the skills development of the present and future labour force, namely the MoES and the MoLESA, are also ready for closer cooperation.

However, the capacity of the different stakeholders to promote meaningful cooperation is limited, and the institutional infrastructure (institutions and processes) that would ensure this cooperation is extremely weak. The abolition of the VET Council under the Education Law of May 2004 and the redefinition of the role, position and responsibilities of the VET Centre have definitely delayed institutional developments. The tasks identified in the green paper, namely those relating to the development of a national qualifications framework and the redefinition of occupational and educational standards for new VET programmes, require an urgent agreement on a new institutional setting (for example, sectoral committees for qualifications). The EU-funded CARDS 2003 VET

Reform programme has already piloted a number of processes (such as the Identification of Sectoral Occupational Requirements (ISOR) committees), though these would need to be evaluated and ultimately adapted and generalised at system level. Furthermore, the new curriculum concept for VET adopted by the MoES, which is structured around output-based modular curricula, will require professional assistance to be provided for the teachers and trainers who will implement it and a strong teacher-training institutional setting.

The concept of lifelong learning is accepted in Serbia and many of the actions proposed in the policy papers provide opportunities for its realisation (such as the assurance of progression routes from initial to continuing training through a national qualifications framework, the broader modular curricula and the partnership approach to VET). However, lifelong learning will not become a reality without the implementation of reforms, as is the case in the EU Member States.

Finally, the availability of adequate resources to implement changes must be ensured. The limited budget of the Ministry of Education and the funds available from the NES for training are far from sufficient in view of the skill needs of the population and the ambitions of the reforms. More funds will need to be made available, either from the state budget or from the beneficiaries (enterprises and individuals). Innovative funding mechanisms that ensure both adequacy of funds and their efficient allocation need to be explored. But this can only be done following clarification of benefits and responsibilities of the different actors.

Despite the recurrent discussions on the need to support adult training, this area of work has not to date been given sufficient priority. Although significant skill gaps cannot yet be considered an impediment to the country's economic development (see 2.4 above), further support should be given in this area for at least two reasons: first, there is a large number of people who are unemployed or have been made redundant and who need to increase their employability and apply for valid work opportunities (rather than getting involved and eventually trapped in informal jobs); and second, the current training provision is inadequate to address present and future skill needs, which will take time to be dealt with. The objectives set, issues addressed and specific actions proposed in the green paper 'Policy of Development of Adult Education in Serbia' are relevant, and action should now be focused on future implementation, with particular emphasis on:

- (i) the development of an accreditation and certification system;
- (ii) the enhancement of local capacity for the provision of (short) training courses for basic skills, entrepreneurship, motivation and improved attitude to work;
- (iii) structured cooperation among various actors at national and local level.

Furthermore, a more important role in the definition of further actions and an enhanced responsibility in future policy development could be foreseen for the MoLESA. As mentioned above, issues of adaptability of the present labour force and an increase in the employability of unemployed people are recognised by the National Employment Strategy that is under development as priorities for employment support. A clear formulation of the expectations of the ministry in achieving the objectives set, as well as a declaration of the responsibilities it wishes to undertake, would be an important input to the discussions on the development of an appropriate institutional setting.

3.5 ENSURING EFFECTIVE IMPLEMENTATION OF REFORMS THROUGH BETTER GOVERNANCE

The problems identified in the Serbian labour market are profound, and they will take time to resolve. A broad social consensus in the policy that is developed, a strong political will and institutional setting for policy implementation, and a well-trained administration are necessary. For the moment there are a number of identified weaknesses with respect to the capacity of the existing institutional infrastructure.

Social dialogue

First, social dialogue is still in its early stages. In Serbia there are three main trade unions: Nezavisnost and Samostalni Sindikat of Serbia are representative, while the third is the independent trade union ASNS, which is no longer representative. Trade unions are active mainly in the government sector, the socially-owned sector and privatised enterprises. In autonomous private enterprises, however, the percentage of trade union members is insignificant. There is a permanent conflict between trade unions over employees' representation and their representativeness. It is often

believed that the trade unions should become more active in developing their expertise on issues related to the core interests of workers.

The position among employers is even more troubled. There are several employers' associations: the Employers' Union, which represents an increasing number of employers, mostly small private enterprises; the Serbian Employers' Association; and the Association of Industrialists and Entrepreneurs, whose position is controversial. However, the employers' associations are quite young, relatively weak and not well organised. Employers are often represented by the Chamber of the Economy, a statutory organisation with compulsory membership for employers, which cannot be considered a social partner³⁷ since it is consulted by the government but has no part in formal social dialogue arrangements.

The main platform for social dialogue at national level is the Socio-Economic Council³⁸, set up in law in 2001 to improve workplace efficiency through social dialogue, to encourage collective bargaining and dispute resolution, and to conclude tripartite social agreements at Republic level. Although there has been much to discuss, and agreement on roles³⁹ was secured in 2002, the council has yet to meet. This is a reflection of the debilitated state of social dialogue in Serbia: it appears to exist in name only. Problems exist for both employers and trade unions participating in the council in demonstrating that their memberships represent 10% of their constituencies.

The Law on Employment and Insurance in the Case of Unemployment provides for the establishment of the Republican Employment Council. This consists of representatives of government, employer and employee organisations, republican services and agencies, NGOs and experts in labour market issues, and is responsible for advising the government on programme creation, the organisation of public works and general economic, social and demographic policy. It can also advise on draft laws and regulations on employment and social insurance, and on lifelong learning. The council is legally and operationally distinct from the managing board of the National Employment Service, which has 15 members, decides on the business operations of the National Employment Service and determines unemployment contribution rates. However, the council has never been activated, though if this were to take place it would be important for it to have a clear interface with the Socio-Economic Council.

The same law provides for the possibility of establishing Territorial Employment Councils at provincial and local level, with a similar representation of stakeholders as the Republican Employment Council. Territorial Employment Councils advise competent bodies of territorial autonomy and self-government on programme creation, public works training and education measures, and on other employment issues. Up to November 2004 around 26 local employment councils had been set up at municipal level, considerably increasing the extent of social dialogue.

The capacity of the Ministry of Labour, Employment and Social Affairs

Second, the capacity of the MoLESA to coordinate and monitor the implementation of an employment strategy is limited. The MoLESA was re-established in February 2004 by the Law on the Ministries. The new ministry assumed the scope of activities of the former Ministry of Labour and Employment and Ministry of Social Affairs. The MoLESA comprises nine departments, including three main departments directly relevant to the labour market: the Labour Department, the Employment Department and the Labour Inspection Department. The Labour Department's responsibilities include labour legislation, labour relations and collective agreements, and involvement in collective agreements for public enterprises and in negotiations on the national minimum wage.

The ministry's Employment Department is organised into five units⁴⁰. Overall the young staff in the sector is competent, though comparatively inexperienced in labour market and employment policy development. The internal structure of the sector includes a section on employment strategy that is the natural home for policy coordination and the management of the process of producing and monitoring

³⁷ The obligatory membership of the Chamber of the Economy is against the ILO criteria for free membership, and thus it cannot be considered as a social partner.

³⁸ The Socio-Economic Council has nine members: the three major trade unions, the Minister of Labour, the Minister of Economy, the Minister of Social Affairs, the Union of Employers and two representatives from government.

³⁹ Representatives of the Serbian government, employers' association and three representative trade unions signed the Agreement on work improvement of the Socio-Economic Council of the Republic of Serbia (April 2002), whereby the shared responsibility of all social partners in Serbia's further development was defined.

⁴⁰ Employment strategy; particular groups in the labour market and the regions; EU laws and convergence; Labour Market Bureau; and Employment of people with disabilities.

a national employment action plan along the lines of those of EU Member States. It needs to build its ability to undertake this expanding role effectively.

The lack of labour market research and evaluation capacity in the ministry places it in a comparatively weak position in relation to other institutions and in developing and assessing employment measures. Moreover, because there is no organisational focus in government for understanding the labour market, information remains piecemeal and of poor quality. Although regular statistics are available from various sources they are inconsistent, sometimes contradictory and (in the case of administrative information from the National Employment Service) beset with interpretation problems caused by lack of common data standards and questionable operational practices⁴¹. The very heavy reliance on external expertise has made attempts to produce an agreed and meaningful employment strategy during 2004 difficult, and underlines the need for the ministry to create greater depth in its policy-making and coordinating capacity.

The Ministry of Education and Sports

Finally, the Ministry of Education and Sports, which is considered to be the main driver of education and training reforms, is the only well-established institution in the field of human resources, though the professional institutions beneath it are still in their infancy. Nevertheless, the MoES has limited availability of staff to support the whole process. Accordingly, further empowerment and sharing of responsibilities with other ministries and public agencies is essential.

Assessment

There is scope for further cooperation among different stakeholders in the development, implementation and monitoring of a sound employment policy that supports the economic restructuring. In this respect the social partners must become stronger and the institutional infrastructure for dialogue and decision making must be further developed. The existence of a number of councils (the Socio-Economic Council, the Republican and Territorial Employment Councils, and the National Council of Education) is potentially positive, as these provide for an exchange of views and consensus building. However, this has yet to be tested, as none of these councils appear to be particularly active. One issue is that these councils occasionally have overlapping roles and responsibilities, and their interface needs to be clarified. Another issue is the link and interaction between the territorial (where they exist) councils and the republican councils.

The process towards the development of the draft National Employment Strategy, and the green paper on VET reform, which seeks the participation of other ministries and (when possible) social partners, can act as catalysts for the development of new operational modalities in policy development and decision making. This process is also likely to lead to a wider understanding of the labour market and human resource development, and the main challenges and acceptance of the choices for addressing them. Other examples of good practice can be found in the development of a network of local enterprise agencies to encourage the start-up and growth of small companies, which has acted as a catalyst in a number of places for social partners to work together to improve the local economy. On the other hand the natural role of the MoLESA in the coordination and monitoring of an employment strategy (including human resource development issues) based on the EU approach is extremely important, and its capacity in that respect should be reinforced. The establishment of monitoring mechanisms for the implementation of the reforms and employment policy, starting with targets and performance indicators, data collection instruments and analyses, are of primary importance.

Finally, a real challenge for Serbia at the moment is to make best use of donor funds. There is a considerable amount of donor involvement in education and labour market projects. Donor funds can have a considerable impact if lessons learnt and trials undertaken are properly evaluated, eventually adapted and transferred into policy making and to system level. However, in some cases there has been difficulty in targeting, in avoiding overlap between the projects and in their sequencing. Although worthwhile projects have usually emerged, the process has often been laborious. Some of the difficulty has arisen from the absence of a clear strategy for using donor assistance. This has been exacerbated by the lack of both an employment strategy and a clear view of how to go about producing such a strategy. The need for the ministry (and it is a ministry responsibility) to take a tighter

⁴¹ For example, people in temporary work continue to be registered and counted as unemployed.

grip of this issue will become more urgent as the accession process proceeds and EU funds need to be strategically targeted. The first key step should be the production of a donor needs assessment that identifies a list of the main candidates (for donor assistance) drawn from agreed policy and strategy objectives, particularly capacity-building measures associated with EU membership.

4. CONCLUSIONS AND RECOMMENDATIONS

The analysis of the labour market challenges and the assessment of the policies put in place to address these challenges lead to the following conclusions and recommendations, grouped under four policy objective headings (as set out in the Revised European Employment Strategy).

Increasing the adaptability of enterprises

1. Despite efforts and progress made to improve the business environment in terms of such issues as macroeconomic stability, price and trade liberalisation, and reduction of inflation, a number of obstacles remain. Some of these obstacles are linked to broader political decisions (such as issues concerning nationalised property) and actions necessary for the transformation of the Serbian economy into a fully fledged, well-functioning market economy (for example, the absence of antimonopoly legislation). Other issues are linked more closely to incentives and opportunities for the business sector. In order to address these issues the following are recommended:
 - further support for the development of SMEs through such measures as the implementation of the SME Strategy, better access to funds, higher-quality advisory services and tax incentives;
 - an enlargement of the focus of SME support, to include not only support for start-ups but also facilitation of growth of existing SMEs, including through the introduction of innovative technologies, the production of higher-added-value products, product diversification, and access to broader (domestic and international) markets.
2. Labour costs have increased during recent years in Serbia. This has been mainly as a result of an increase in net wages, which were kept low during the 1990s. Although tax reform has decreased and mainstreamed income tax to EU-comparable levels, the level of social contributions appear to push labour costs upwards. Furthermore, Serbia is faced with the problem of a large informal sector and needs to encourage the legitimisation of shadow activities partly through reducing non-wage costs. Accordingly, the following is recommended:
 - containment of increases in labour costs that outweigh productivity gains, a review of the level and in particular the system of social contributions, and an evaluation of its impact on non-wage labour costs.
3. The new legislation introduced since 2001 has simplified the previous regulations, reduced state intervention in the employment relationship and introduced greater freedom for employers and flexibility of employment patterns. Despite this, the pace of labour reallocation within the formal sector has been slow. This is partly because the generous social programme for enterprises undergoing restructuring, together with an inadequate social safety net for a large number of people (including both unemployment benefits and social assistance), poorly targeted active labour market measures and opportunities for 'moonlighting' in the informal economy, creates disincentives for people to leave their jobs voluntarily and search for new job opportunities. The following is therefore recommended:
 - a better balance between programmes for redundant workers from restructuring enterprises and programmes for other unemployed people.
4. Nor has the new legislation led to more flexible types of work (for example, part-time) in the formal economy. When flexible forms of work such as temporary contracts have been used this has mainly been in order to avoid the obligations that a fixed-term contract would imply rather than because the type of work organisation required it. In a restructuring context, the use of flexible forms of work can be an alternative to dismissals. Accordingly, the following seems appropriate:
 - the promotion of increased use of flexible forms of work in the formal sector and the facilitation of more flexible work organisation patterns.

Attracting more people to enter and remain in the (formal) labour market: making work a real option for all

1. The overall level of economic activity among the population is not a matter of concern, except in respect of young people, who have extremely low levels of activity and employment. However, given the extent of the informal economy, the challenge is to attract people to the formal economy and to motivate unemployed people to search actively for a job (in the formal economy). In order

to achieve this objective it is recommended that a consistent set of measures be established, including the following:

- a proper social safety net for people who lose their jobs, through the timely payment of unemployment benefit (so that they do not inevitably fall into the trap of the informal sector), while at the same time ensuring that this benefit will not discourage them from searching for a job;
 - high-quality assistance in identifying job opportunities in the formal sector; this includes counselling, motivation seminars and job search assistance (seminars, job clubs, job fairs);
 - the targeting and selective provision of other active labour market measures such as training, wage subsidies and public works, on the basis of an individual career plan within the context of the activation policy;
 - the introduction of proper evaluation of active measures to inform decisions regarding changes in the scale and balance of the programme; setting aside a proportion of 3% to 5% of the active measures budget for evaluation would help to ensure that the remaining 95% is spent to best effect.
2. Active labour market measures are the key to maintaining and increasing the employability of unemployed people and to keeping them from withdrawing into the informal economy or inactivity. However, given the limited money available for active labour market measures and the lack of monitoring of their effectiveness, together with the large number of unemployed people, in the short term the following are recommended:
- a rebalancing of active labour market measures towards lower-unit-cost measures that reach many more unemployed people than the current portfolio;
 - the promotion of job search techniques (such as seminars and clubs), remotivation seminars and career guidance, which are useful measures, not only because of their low unit cost but also because people in transition countries (having enjoyed long years of job stability) lack job search skills (see also the recommendation above);
 - the piloting, testing, monitoring and evaluation of more expensive active labour market measures (donor funds are available), as part of the policy development and decision-making process.
3. An efficient and effective employment service can contribute greatly to the successful implementation of the above recommendations. There is scope for improving the efficiency and effectiveness of the NES, through the following recommendations:
- the removal of incentives for people to register as unemployed (for example health insurance rights);
 - the cleaning of the register on the basis of the criteria for unemployment established by the new employment law (i.e. availability for work and proof of job seeking activities) so as to diminish the caseload per counsellor;
 - an improvement in the operational efficiency of the NES: there is a need for a thorough overhaul of operational processes and for performance indicators to be introduced based on the relationships between inputs and outputs, service standards and external client surveys;
 - an increase in the allocative efficiency of the NES through the reduction of backroom operations and putting a larger share of NES staff on the front line;
 - the identification of the core business of the NES and the avoidance of tasks that are not necessarily part of the core business of a public employment service, such as medical examinations for unemployed people who have found a job.

Investing more and more effectively in human resources

1. Work on the modernisation of the education and training system has already started with the preparation of comprehensive policy papers, which are now in the consultation phase, and experimental activities (mainly donor funded). The following further work on policy development is recommended:
- an increasing focus on the identification of the main constraints and barriers for the implementation of the ambitious reforms envisaged;
 - the development of pragmatic action plans and monitoring mechanisms.

2. It is important to ensure strong political will and commitment to the modernisation process. This includes the avoidance of abrupt changes of policy direction and a commitment to share lessons learned from donor-funded pilot activities across the system as a whole.
3. It is also important to establish a sound institutional infrastructure for the further development and implementation of reforms, facilitating cooperation and exchange between the economy and the education system. The following actions are recommended:
 - the setting up and activation of a national body that will institutionalise exchange and cooperation among different stakeholders in policy development and monitoring, and will share roles and responsibilities;
 - the setting up of an institutional infrastructure (including, for example, processes and committees) for the development of a national qualifications framework;
 - the strengthening of the capacity of existing institutions (such as the Institute for Improvement of Education and the VET Centre within it, as well as the Centre for Evaluation) to provide professional support for the development and implementation of the new curriculum concept (including identification of occupational standards, definition of learning outcomes, teacher training, assessment and quality assurance); this includes the definition of specific roles and responsibilities for those institutions, establishing working mechanisms (for example with schools or other bodies), ensuring the availability of adequate professional staff, and capacity building;
 - the setting up a teachers' and trainers' training system, as large-scale reforms at school level will require support, guidance and assistance to be provided for teachers;
 - the strengthening of the capacity of the MoES and its agencies to monitor developments in the reform process and feed back into policy making.
4. The implementation of the ambitious reforms envisaged will not be achieved without sufficient funds. Further funds will be needed, either from the state budget or from other beneficiaries (enterprises and individuals) and stakeholders. Accordingly, the following is recommended:
 - an exploration of innovative funding mechanisms that ensure both adequacy of funds and their efficient allocation.
5. Issues relating to the adaptability, enhanced employability and entrepreneurship of the labour force are recurrent under debate, and require urgent attention. However, actions to promote adult training are still modest. The green paper 'Policy for the Development of Adult Education' provides a good basis for future action. The following actions are recommended:
 - the moving of adult training up the government agenda;
 - progress on short- and medium-term necessary measures, and in particular on (i) the development of an accreditation and certification system, and (ii) the design and delivery of short training courses to increase the employability of unemployed people and those under threat of redundancy;
 - the development of an appropriate institutional and regulatory framework in partnership with key stakeholders, with a more pronounced and institutionalised role for the MoLESA in future debates concerning policy development and implementation.

Ensuring effective implementation of reforms

1. In order to address comprehensively and consistently the challenges of the Serbian labour market, structured cooperation, exchange and negotiation among stakeholders is necessary. To this end, the following recommendations are made:
 - a strengthening of the role of social partners (trade unions and employers' associations) through the activation and efficient functioning of the National Employment Council and the Socio-Economic Council (as the main institutionalised platform for social dialogue at national level); however, the interface among the different councils must be clear and sound.
2. The National Employment Strategy must be developed further, through:
 - the setting up of targets for the specific objectives;
 - the development of annual action plans;
 - the development of financial plans.

3. The MoLESA will have a central role to play in the coordination and monitoring of the implementation of the National Employment Strategy. However, its capacity to do so is still limited. Accordingly, the following are recommended:
 - support for the development of the analytical capacity of MoLESA for labour market monitoring and employment policy evaluation, as well as for policy development;
 - support for the capacities of MoLESA on issues of supply-side and human resource development so that it is in a position to undertake a more active role in this field.
4. The establishment of mechanisms to monitor the implementation of the reforms and employment policy are of primary importance. Data sources do currently exist, but they are underused or misused. It is therefore recommended that the following be carried out:
 - an improvement in data collection instruments and analyses of labour market and employment policy implementation.
5. Donor funds and other assistance should be optimised through a more strategic approach to their use. This can be achieved by ensuring the impact of donor projects on policy and system development, and by avoiding overlaps between projects and their sequencing. The existence of an employment strategy and action plan may assist in the achievement of the latter. It is recommended that:
 - the MoLESA takes tighter control of the issue of donor coordination and maximises the impact of donor projects; this will become more urgent as the accession process proceeds and EU funds need to be strategically targeted.

ANNEXES

ANNEX 1: MACROECONOMIC INDICATORS

	2000	2001	2002	2003
Real GDP growth, annual (%)	6.4	5.1	3.8	3.0*
GDP, distribution of				
- agriculture, % of GDP	22.2	21.7	16.6	n.a.
- industry, % of GDP	30.9	30.6	29.0	n.a.
- other, % of GDP	46.9	47.7	54.4	n.a.
Private sector, % of GDP	40.0	40.6	41.6	n.a.
Annual inflation rate (%)	113.5	40.6	14.8	7.8
Public debt, % of GDP	119.1	123.2	92.2	80.3
- external debt, % of GDP	133.0	102.0	75.0	69.0
Budget balance				
- local currency, CSD billion	-12	-11	-43	n.a.
- % of GDP	8.2	1.3	1.6	4.4
Trade				
- export, US\$ million	1.723	1.903	2.275	2.477
- export, % of GDP	19.1	16.2	18.6	19.7
- export, % going to the EU	39.0	43.0	41.0	44.0
- import, € million	3.711	4.837	6.320	7.324
- import, % of GDP	41.2	40.7	51.6	58.3
- import, % coming from the EU	41.0	41.0	43.0	43.0
Investment/aid				
- total investment, % of GDP	14.2	14.0	15.2	15.7
- foreign direct investment (FDI), % of GDP	0.6	1.4	3.9	10.3
- foreign aid, % of GDP	3.0	5.0	4.4	3.8

ANNEX 2: POPULATION AND LABOUR FORCE

Working-age population by age

Total	2000	2001	2002	2003
15–64	4,715,562	4,706,373	4,647,941	4,545,320
15–24	777,660	738,877	717,486	737,110
25–34	789,077	802,312	819,885	777,045
35–44	923,433	954,552	869,575	856,973
45–54	1,180,335	1,220,447	1,248,398	1,206,924
55–64	1,045,057	990,185	992,597	967,268

Source: LFS

Men	2000	2001	2002	2003
15–64	2,322,508	2,368,500	2,318,174	2,283,658
15–24	399,846	386,603	375,020	374,563
25–34	401,191	409,497	410,775	409,263
35–44	452,386	480,465	428,774	431,667
45–54	581,160	605,818	615,349	595,774
55–64	487,925	486,117	488,256	472,391

Women	2000	2001	2002	2003
15–64	2,393,053	2,337,871	2,329,766	2,261,662
15–24	377,813	352,273	342,466	362,547
25–34	387,886	392,815	409,110	367,782
35–44	471,047	474,086	440,800	425,306
45–54	599,175	614,629	633,049	611,150
55–64	557,132	504,068	504,341	494,877

Working-age population by educational attainment

Total	2000	2001	2002	2003
Less than secondary	1,784,801	1,733,793	1,681,347	1,661,306
Secondary	2,392,635	2,451,795	2,440,187	2,392,928
Tertiary	538,125	520,784	526,407	491,086

Source: LFS

Men	2000	2001	2002	2003
Less than secondary	733,737	747,667	718,413	726,152
Secondary	1,301,010	1,334,590	1,322,908	1,294,141
Tertiary	287,761	286,243	276,853	263,364

Women	2000	2001	2002	2003
Less than secondary	1,051,065	986,126	962,934	935,154
Secondary	1,091,625	1,117,204	1,117,279	1,098,787
Tertiary	250,364	234,541	249,554	227,723

ANNEX 3: EDUCATIONAL ATTAINMENT OF THE POPULATION BY AGE GROUP

Educational attainment of 15–24 (%)

	Men	Women	Total
Primary	45.7	45.8	45.7
Secondary	51.8	50.9	51.4
Tertiary	1.1	1.8	1.4
Other	1.5	1.5	1.5
Total	100.0	100.0	100.0

Educational attainment of 25–34 (%)

	Men	Women	Total
Primary	22.4	22.1	22.2
Secondary	67.2	61.6	64.4
Tertiary	10.4	16.3	13.3
Other	0.0	0.0	0.0
Total	100.0	100.0	100.0

Educational attainment of 35–44 (%)

	Men	Women	Total
Primary	24.2	29.3	26.8
Secondary	60.3	53.6	56.9
Tertiary	15.5	17.1	16.3
Other	0.0	0.0	0.0
Total	100.0	100.0	100.0

Educational attainment of 45–54 (%)

	Men	Women	Total
Primary	32.2	46.6	39.5
Secondary	50.7	39.6	45.1
Tertiary	17.0%	13.8	15.4
Other	0.0%	0.0	0.0
Total	100.0%	100.0	100.0

Educational attainment of 55–65 (%)

	Men	Women	Total
Primary	45.4	68.9	57.7
Secondary	36.6	21.8	28.8
Tertiary	18.0	9.4	13.4
Other	0.0	0.0	0.0
Total	100.0	100.0	100.0

Educational attainment of the population 25–65 (%)

	Men	Women	Total
Primary	30.4	41.1	35.8
Secondary	54.4	44.6	49.4
Tertiary	15.2	14.3	14.7
Other	0.0	0.0	0.0
Total	100.0	100.0	100.0

ANNEX 4: LABOUR COSTS

I	Gross wage in CSD	10,000
II	Lowest base for calculation of contributions to Pension and Disability Fund	12,516
III	Lowest base for calculation of contributions to Health and Unemployment Fund	12,979
IV	Base for calculating contributions to Pension and Disability Fund if gross wage is higher than the lowest base	12,516
V	Base for calculating contributions to Health and Unemployment Fund if gross wage is higher than the lowest base	12,979
V	Total employee income tax on gross wage earnings – plus pension, health and unemployment security contribution	3,532.78
VI	Total employee contributions	2,132.78
	▪ Pension and Disability Insurance (10.3% * IV)	1,289.14
	▪ Health Insurance (5.95% * IV)	772.25
	▪ Unemployment Insurance (0.55% * IV)	71.38
VII	Income tax (14% * IV)	1,400
VIII	Net wage	6,467.22
IX	Total employer tax on gross wage earnings – plus pension, health and unemployment security contribution	2,482.78
X	Total employer contributions	2,132.78
	▪ Pension and Disability Insurance (10.3% * IV)	1,289.14
	▪ Health Insurance (5.95% * IV)	772.25
	▪ Unemployment Insurance (0.55% * IV)	71.38
XI	Tax on salary fund (3.5% * IV)	350
XII	Total labour cost	12,482.8
XIII	Total income tax on gross wage earnings – plus employee and employer social security contribution as a percentage of labour costs	48.2

The taxable person is the employee but the employer is responsible for calculating and withholding personal income tax on behalf of its employees. The taxable base is the gross amount including fringe benefits. The tax rate is 14%.

Social security contributions are calculated and withheld by an employer from the wage paid to an employee. These contributions are payable by employer and employees at equal rates.

Tax on salary fund is a monthly tax, payable by the employer, at the rate of 3.5%, and goes to the local government. Municipalities are permitted to set lower rates, though no such cases exist.

ANNEX 5: ACTIVE LABOUR MARKET MEASURES – PLANNED PROGRAMME FOR 2004

Programmes	Number of participants	Planned cost (CSD)	Unit cost (CSD)
Job broking and activation	27,915	30,330,000.00	1,086.51
Job fairs	13,324		
Job search	14,591		
Training total	4,086	300,000,000.00	73,421.44
Trainees and trainee volunteers	2,151		
University degree	403		
College degree	111		
Secondary school degree	283		
Trainee volunteers	1,354		
Training programmes	1,120		
Talented people	148		
Other training	667		
Entrepreneurship training	18,585	569,670,000.00	30,652.14
Support to employment programmes	431		
Encouraging enterprise	18,154		
Self employment	2,646		
Entrepreneurial centres	15,508		
Volunteers/programme centre			
Total	50,586	900,000,000.00	17,791.48

Source: National Employment Service

Notes:

- The figures in the 'Number of participants' column are actual rather than planned participants in the programmes.
- Data in the 'Planned cost' column are from the NES Finance Plan for 2004. Expenditures were planned for three programmes together.
- The values in the 'Unit cost' column are the planned expenditures divided by the number of individuals included in the programme.

ANNEX 6: LIST OF INSTITUTIONS VISITED

NATIONAL INSTITUTIONS

Ministry of Labour, Employment and Social Affairs

- Slobodan Lalovic, Minister
- Radmila Bukumiric-Katic, Assistant Minister
- Vesna Piperski, Assistant Minister
- Jadranka Dimov, National Director of the CARDS Support to Employment in Serbia programme

Ministry of Economy

- Petar Pavlovic, Assistant Minister of Economy for SME
- Aleksandra Djordjevic, Expert

Ministry of Finance

- Mladjan Dinkic, Minister

Ministry of Education and Sports

- Vekislav Janicijevic, Deputy Minister
- Bojan Ristic, Head of Department
- Radovan Zivkovic, Head of Unit
- Gabriela Bratic, National Director of CARDS VET Reform programme

National Employment Service

- Radovan Ristanovic, Director
- Sinica Durkovic, Deputy Director
- Dragan Djukic, Assistant to the Director
- Mirjana Suljmanac Secerov, Manager of the Provincial Employment Office – Vojvodina
- Zoran Ristic, Head of Employment Service – Vranje

Serbian Statistical Office

- Milutin Prokic, Head

Agency for Privatisation

- Branka Jankovic, Executive Director

Agency for SMEs

- Mirjana Jovanovic, Director
- Ana Zegarac, Head of International Cooperation Unit

Serbian Chamber of Commerce

- Vladimir Ivankovic, Head of VET Centre

Vocational Education and Training Centre

- Dragan Simic, Head of VET Centre

Confederation of Autonomous Trade Unions of Serbia

- Milenko Smiljanic, President
- Zoran Vujovic, Secretary
- Biljiana Pejovic, Department of International Relations

Union of Independent Branch Trade Unions

- Branislav Canak, President

Serbian Employers' Association

- Rato Ninkovic, President

- Marijan Zovic, General Secretary

Provincial Secretariat for Labour and Employment – Vojvodina

- Vesna Kamenarovic, Adviser

Vranje Communal Assembly

- Miroljub Stojcic, President
- Boban Stankovic, Adviser

Chamber of the Economy of Vojvodina

- Nikola Stojsic, President

Regional Chamber of the Economy – Leskovac

- Zoran Stoikovic, Vice President
- Momcilo Novkovic, Secretary of Chamber of Vranje

Regional Agency for the development of SMEs

- Miroslava Filipovic, Director

EXPERTS AND INTERNATIONAL ORGANISATIONS

Institute G 17

- Mirosinka Dinkic, Head of Social Policy Department
- Michail Arandarenco, Expert/Adviser to Deputy Prime Minister
- Gorana Krstic, Economics Institute, Senior Economist

CARDS programme on VET Reform

- Iskra Maksimovic, Key National Expert for VET curriculum reform
- Miomir Despotovic, Key National Expert for Adult Education
- Carsten Schmidt, Team Leader

CARDS regional socioeconomic development initiative programme

- William P. Lewis, Team Leader
- Jelena Bojovic Abu el Rub, Assistant Team Leader

European Agency for Reconstruction

- Michael Kilcommons, Programme Manager

SIDA Project for Employment Service

- Maud Nies, Team Leader

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