

# ACTIVATING THE UNEMPLOYED

## OPTIMISING ACTIVATION POLICIES IN THE WESTERN BALKANS AND TURKEY



Report of the Community of Practice on Activation  
in the framework of the ETF Mutual Learning Project,  
2009-11

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## OPTIMISING ACTIVATION POLICIES IN THE WESTERN BALKANS AND TURKEY

WORKING PAPER PREPARED BY  
SANJA CRNKOVIC-POZAIC AND LIZZI FEILER  
September, 2011

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*Goals will be easier to achieve if countries learn from each other and develop common tools, which can then be adapted to meet the specific needs of each country.... The focus is on exchanging good practice and developing common tools, in order to face common challenges.*

Ján Figel', European Commissioner for Education, Training, Culture and Youth, 2004–09

## **ACKNOWLEDGEMENTS**

This report is the result of a project carried out jointly by the Community of Practice on Activation. The community started working together in May 2009 and brought together experts from public employment services (PES) in the eight countries of the Western Balkans and Turkey, under the coordination of the European Training Foundation (ETF).

We want to express our warm thanks to all members of this community for their active commitment and contributions to discussions and working groups. Additional information was collected through a specific survey. We sincerely hope that the mutual learning gained from this cross-country report will inspire policies and practices in partner countries and provide an additional impetus for cooperation among PES of the candidate countries and potential candidates for accession to the European Union (EU).

# EXECUTIVE SUMMARY

This paper explores current employment activation practices and interrelated factors in the Western Balkans and Turkey and comes up with policy options for more coherent activation policies. It is primarily addressed to policymakers and practitioners in the candidate countries and potential candidates for accession to the EU, but may, however, also be relevant to other countries which are aiming to upgrade their employment policies and services.

Activation is defined as a combination of mutually supporting policies, with regard to unemployed people (registered unemployed) or welfare benefit recipients who are able to work, directed towards increasing their capabilities and motivation to participate in active labour market measures and to search actively for a job. The aim of activation is to get jobseekers into jobs which provide them with adequate income, thereby avoiding poverty and exclusion.

Successful activation policies combine both demanding and supportive measures to motivate and capacitate unemployed people. Demanding measures are those which impose some demand or obligation on the recipients of benefits. Supportive measures include information, counselling and guidance, enhanced placement and referral services, training measures, support for self-employment, and other forms of active labour market measures. The rights and responsibilities of jobseekers are clearly defined and are communicated to the registered unemployed; non-compliance is sanctioned with reduction in cash benefits or elimination from the register. Such 'carrot and stick' approaches have proven to be successful in many EU countries. However, the conditions in the Western Balkans and Turkey differ from those.

The economic crisis following the emergence of the global financial crisis of 2007–08 had a marked negative impact on the labour markets of the Western Balkan countries. Employment rates decreased and unemployment rates increased further in Croatia, Montenegro and Serbia, although Albania and Turkey managed to reverse the negative labour market trends.

Employment rates in Western Balkan countries and Turkey are far below the EU averages, with only Croatia coming relatively close to these averages. The main reasons are low female employment rates, the lowest being in Kosovo<sup>1</sup> at only 12.5%, followed by Turkey at 24.2% (LFS, 2009), and the low youth employment rate. Long-term unemployment has reached high levels in many countries. Youth unemployment is alarmingly high (73% in Kosovo, 57.5% in Bosnia and Herzegovina, and 55.1% in the former Yugoslav Republic of Macedonia; LFS, 2009)<sup>2</sup>. Furthermore, a shared characteristic of the labour markets in Western Balkan countries and Turkey is persistent informal employment in the form of undeclared or underdeclared labour and vulnerable self-employment. Tailor-made demand- and supply-side measures are needed to increase the effects of activation.

## DEMAND-SIDE CHALLENGES

High employment rates and income security are important not only for economic development and robust fiscal budgets, but also for achieving the goals of inclusive labour markets, which include also vulnerable groups. Factors impacting on the demand for labour and hence the effectiveness of activation policies include the total labour cost, legal and administrative procedures for hiring, possible sanctions for irregular employment practices, and others. For example:

- For many people in the Western Balkans and Turkey it makes financial sense not to work in the formal sector if one can get access to unemployment-related benefits and at the same time work in the informal economy.
- Jobs in the public sector are not very well paid, but the wages are regular and job security is highest, which is why there is a large queue for public-sector jobs but at the same time no serious competitive environment in this sector.
- When hiring, employers prefer persons with relevant work experience but discriminate against older workers, women and persons with lower qualifications.
- Relatively high labour costs create a labour-saving attitude and reduce the potential demand for labour.
- Cost considerations and administrative procedures are sometimes reasons for employing 'shadow workers', and this reinforces the segmentation of the labour market. Limited competition in the labour market can lead to higher wages and lower mobility of labour.
- Inadequate sanctions for employers who work outside the regulatory environment and employ informal workers, as well as acceptance of non-adherence to fiscal obligations and labour legislation, help sustain the practices of informal labour.
- The frequent practice of paying wages irregularly and defaulting on contribution payments is a strong countermotivation for work, especially among the higher-quality workforce.

<sup>1</sup> Under UNSCR 1244/1999, hereinafter 'Kosovo'.

<sup>2</sup> Data from the labour force surveys of the state statistical offices (see bibliography).

- Lack of trust in the business community and between employer and employee is an important barrier to economic development.
- Finally, inadequate managerial skills, in particular as regards human resource deployment and development within companies, may be an impediment to innovation and to further business development and growth.

As a result of all these factors, the level of formal-sector vacancies is low, although the availability of such vacancies is a *sine qua non* for successful activation by the PES.

## SUPPLY-SIDE CHALLENGES

Labour supply is a function of several variables: the available skills of labour, the going wages and contributions, the number of vacancies and the types of profiles demanded, the competitive prices of labour in the informal economy, and the alternative financial sources available outside work.

The main challenges in Western Balkan countries and Turkey on the supply side are as follows.

- Criteria for eligibility to register as an unemployed person are relatively liberal, but generally there is a focus on applicants' status as unemployed, rather than on their status as jobseekers and their ability to work. Structurally, the characteristics of the unemployed persons who typically appear on PES registers are such that inactivity on the one hand and employment in the informal economy on the other make it very difficult to fulfil some of the typical goals and functions of public services. In addition to legislation which does not distinguish clearly between employed, unemployed and inactive persons, the processes in the PES do not contribute in all countries to screening and identifying those who are employable and those who need different kinds of support measure (Croatia, Serbia and Montenegro being exceptions). Given the limited resources of the PES and limited vacancies demanding measures are difficult to implement.
- In many Western Balkan countries, receipt of benefits is contingent upon being registered as unemployed, which is logical in the case of unemployment benefits. All countries, with the exception of Kosovo, have an unemployment insurance scheme with unemployment cash benefits. However, both the coverage and the wage replacement levels of benefits are low; the maximum duration is 12 months, with some exceptions for pre-retirement schemes. Low wage replacement rates of benefits, low coverage (where only a few of the registered unemployed receive cash benefits) and short duration of benefits together constitute a situation of low income security and motivate people to work in the informal economy, even though they are registered as unemployed. Attempts to make low-paid work legal and compatible with the receipt of unemployment benefits are as yet only nascent.
- There are many other social benefits which accrue to the unemployed, but accessing these benefits is a complex procedure. Many are small and seemingly insignificant, but they add up to a significant amount. However, the institutions granting the benefits rarely cooperate. Provision of benefits for various purposes and through multiple institutions is the usual method by which the social security system functions. Unless these income support measures are redesigned in order to be more motivating for work and better targeted at those in need, unemployment counts will remain excessively high and PES services will remain overloaded with benefit administration.
- All countries offer vocational training, retraining or the acquisition of various basic or generic skills as part of their active labour market measures. Even though the number of measures and the numbers of participants have both increased over the last few years, the uptake is tiny in relation to the needs. Low skill levels among the working-age population, particularly among the unemployed and inactive persons, make activation difficult and expensive.
- The supply of labour is curtailed at the lower end of the qualifications scale by low wages in the formal sector which are no higher than combined social benefits plus informal employment.
- PES staffing levels and budgets that would enable a reasonable coverage of passive and active labour market measures are extremely limited.

## POLICY OPTIONS AND RECOMMENDATIONS FOR EFFECTIVE ACTIVATION

Any approach to policy options must start from the fact that the activation agenda requires an integrated approach. Activation challenges cannot be addressed by labour market policy instruments alone, nor can labour market institutions be the only actors who implement the policies. Both demand-side and supply-side issues need to be taken into account, and demanding and supportive measures of activation have to be combined. The most obvious and important partners for the PES are the responsible ministries, the social partners, the social welfare centres, the educational establishments, local authorities and – last but not least – the employers.

One of the priority tasks is to address the slack labour demand in the formal sector, which is the main impediment to activation. This challenge is linked to economic development policy, regional policy, industrial policy, fiscal policy,

investment policy, entrepreneurship development policy, and so on. Of particular interest are measures which will increase and strengthen competition, labour mobility, a conducive entrepreneurial environment, and a stable, open regulatory framework which facilitates enterprise creation, innovation and growth.

As well as establishing a macroeconomic environment conducive to job creation, a longer-term policy aimed at reducing the informal economy is necessary. As long as there is a possibility that only some beneficiaries will pay insurance premiums, social security contribution rates have to be kept high, causing a further burden on labour cost. Control of, and sanctions against, employers who do not pay contributions to the social security system need to be enforced. In addition, incentives for employers to move into more lucrative sectors and make formal work pay, thus reducing the wage gap between the formal and informal economies, may entice both employers and employees back to the formal sector. Policies may also be put in place that make certain categories of worker, such as first-time entrants to the labour market, more affordable to employers without the system being abused.

The biggest challenge on the supply side for a more effective activation are the existing skills of jobseekers. However, there are also other issues that PES need to address to interrupt the vicious circle of low demand for labour, low incentives to take up formal work and long spells of unemployment. These are summarised below.

### **Eligibility and categorisation of people registering as unemployed**

PES registers should remain open to all those who would like to find work for whatever reason. However, registration must clearly be restricted to those who are jobseekers, able and willing to work according to the ILO definition. Applicants to PES registers should be given the status of jobseeker rather than that of unemployed. In some Western Balkan countries changes in legislation are needed to make a clear distinction between employed, unemployed and inactive persons. Only then it will be possible, through demanding activation measures, to check subsequently on the activity status of the registered unemployed.

In addition, there is a need to 'profile' people who register as unemployed. Profiling systems help to diagnose individual employability, assess the risk of long-term unemployment and the level of assistance the person may need, and target appropriate services (Weber, 2011). Currently, only Croatia and Montenegro distinguish between those who have marketable skills and can immediately start a job search based on a professional plan, persons who need simple support measures (such as vocational guidance, seminars on how to look for work, attendance at job fairs, activity in job clubs, etc.) and hard-to-place people who need the most support. Profiling unemployed people, however, requires sufficient staff capacity in the PES.

In addition, those who are registered as unemployed but are actually working in the informal economy should be given the opportunity to legalise their status. Finally, social welfare or health insurance should not be contingent on being registered as unemployed. Positive examples of separating health insurance schemes from registration as unemployed can be found in Croatia and Turkey.

### **PES resources, capacities and service delivery**

PES need more resources for passive as well as active labour market measures. The caseload of the staff working with clients should be reduced. The proportion of counsellors working directly with clients should be increased at the expense of administrative posts. The activation rate (percentage of registered jobseekers participating in active employment measures) should be increased so as to achieve a sizeable impact.

A great effort will be needed to increase female employment rates. To this end, gender mainstreaming approaches should be applied to make sure that both women and men are participating in all measures according to their share in the working-age population, and should be combined with targeted approaches for disadvantaged women (e.g. low-skilled women, women with family care duties).

Support services for specific vulnerable groups might be outsourced, for example to NGOs.

PES services to employers should be further strengthened and developed in order to canvass more vacancies and improve the reputation of PES as reliable service providers for employers. This implies a change of mindset in some employment services from an administrative function to a service function geared towards employers.

Active labour market measures should be regularly evaluated as regards their impact, and funds strategically directed to the most effective approaches.

Activation approaches should include both supportive and demanding measures. Supportive measures are needed to increase employability and provide basic income security for job seekers, thus making informal-sector income unnecessary. This support must be accompanied by stricter demanding measures to tackle informal employment and to ensure that jobseekers are actively searching and available for work.

## Skills matching

Labour market training is a cornerstone of the active labour market measures of PES in all Western Balkan countries and Turkey. Training measures need to be more effective and their results measured in terms of job placement rates. It is imperative that training programmes provide qualifications which are needed by the labour market. This in turn requires that such programmes are implemented in close cooperation with employers, bringing together the supply and demand sides. Skills mismatches can be reduced only if the contents of training are based on reliable analyses of skill needs. Economic sectors should be systematically screened in order to identify crucial occupations and to monitor changing skill needs. Training providers should plan their training programmes on the basis of these analyses and should maintain an ongoing dialogue with employers and analysts on present and future skill needs (employment partnerships, human resource development centres, sector councils).

The employment service is possibly the only institution which has some preconditions for providing such a labour market information system for human resource needs. The ultimate beneficiary should be the central government administration responsible for economic development planning and the development of human resources.

Overall, there are no easy solutions to hand for making activation approaches more effective. Approaches need to be embedded in a policy mix that addresses tackling informal employment, investing in skills that are in demand, increasing the scope and effectiveness of active labour market measures and modernising social security systems. PES in the candidate countries and potential candidates for accession to the EU can learn from both good practices and failures in EU countries, but they can learn even more from each other. Mutual learning in the framework of regional and international PES networks is an important contribution to improving activation policies.

# 1. INTRODUCTION

This report is primarily addressed to policymakers and practitioners from the candidate and potential candidate countries for accession to the EU, but it may, however, also be relevant for other countries which are aiming to upgrade their employment policies and services. The report aims to contribute to an enhanced understanding of the interrelated factors that influence the effectiveness of employment activation policies. Activation helps to ensure that jobseekers have a better chance of finding employment. Key elements of activation policies include enforcing the availability for work and the mutual obligations of jobseekers and employment services, meaning that benefit recipients are expected to engage in active job search and improve their employability, in exchange for receiving efficient employment services and benefit payment (OECD, 2011). The report explores external factors and obstacles, as well as policy options for more coherent activation policies.

The topic of activation was selected in view of the relatively high rates, in the Western Balkan and Turkey, of long-term unemployment and youth unemployment, and of people who claim unemployment or social benefits or are simply registered as unemployed but are not actively looking for a job. In conditions of rising unemployment and limited budgets for active labour market measures, PES are striving to improve the effectiveness and impact of their measures and programmes.

The report does not provide a detailed analysis of active or passive labour market policies in Western Balkan countries. For this, we refer the interested reader to the respective research commissioned by the European Commission's Directorate General for Employment, Social Affairs and Inclusion and carried out by ÖSB Consulting and the Vienna Institute for International Economic Studies (2010).

The European Employment Strategy generally sets the frame for countries striving to adapt their policies, institutions and capacities to EU state-of-the-art approaches and practices. Europe 2020, the European strategy for growth and jobs, highlights the importance of (i) increasing labour market participation and reducing structured unemployment; and (ii) promoting social inclusion and combating poverty (Employment Guidelines in force since October 2010). In the framework of the Open Method of Coordination, the European Commission and EU Member States monitor progress against the objectives and targets set. A platform for the regular exchange of good practices among PES, the 'PES to PES Dialogue', was launched in 2011 (European Commission, 2011).

However, the region in question comprises countries that are in different phases of development and may face different challenges, where EU approaches do not necessarily fit. Labour market institutions in the Western Balkans and Turkey differ from those in EU member states in that, for instance, resources for labour market services, especially for active labour market policies, are highly restricted while informal labour and a lack of regular jobs constitute big challenges. For these reasons, policies which brought good results in EU member states need to be critically assessed and adapted for the Western Balkan countries and Turkey. Tailor-made approaches are needed. Rather than adopting the EU guidelines and targets as they are, the appropriate approach is to follow a broader vision, to analyse where the country stands, identify challenges, decide what is important, and set objectives and targets in line with the country's labour market characteristic. Interministerial and multi-stakeholder cooperation including social partners for a better coordination of cross-cutting policies are key in this context.

This process is supported by the EU's funding Instrument for Pre-Accession Assistance (IPA) and respective technical assistance. IPA support has already led to a gradual modernisation of the employment policies and services in the Western Balkans and Turkey.

The findings of this report are based on discussions and contributions by members of the Community of Practice (CoP) on Activation, which involved Western Balkan countries and Turkey. The CoP participants expressed their hope that a wider circle of people, including local decision makers and practitioners, would be familiarised with the findings and discussions of the CoP: 'If what we learn does not reach the places of practice, it becomes impossible to implement.' It remains to express our sincere wish that the experience from our joint work bears fruit and helps inspire PES policies and practices in partner countries.

## 2. METHODOLOGY

The present paper is the result of joint work undertaken by the CoP on Activation created in the framework of the ETF Mutual Learning project. The community started to work together in May 2009, bringing together policymakers, experts and practitioners from PES in all Western Balkan countries and Turkey (see the list of participants in Annex 2). It gave policymakers and experts from the countries an opportunity to review, critically and systematically, policies and practices related to the activation of unemployed people in their own and other countries. Despite their diversity, the Western Balkan countries and Turkey have a lot to share and to learn from each other in the search for solutions to partly similar problems. Hence, the ETF Mutual Learning project provided a platform for experts to share such knowledge and experience and identify suitable policy options with a view to advancing reforms.

In addition, the paper builds on the outcomes of questionnaires developed by the CoP and filled in by the PES representatives involved in the CoP (see Annex 1).

The activities of the CoP members included a peer learning visit and workshop in Croatia, hosted by the Croatian Employment Service, in December 2009, and a study visit and workshop in Austria in October 2010. The discussions and survey results were compiled and analysed, and were finally debated during a workshop in Turin in February 2011.

Despite differences between the individual countries in question, it can be claimed that the findings are relevant for all Western Balkan countries. There are, however, different framework conditions to be considered for a large country such as Turkey, which has a different history and labour market characteristics from the Western Balkan countries. In some cases the analysis therefore refers to Western Balkan countries only.

Chapter 3 analyses the specific challenges of the labour markets of the Western Balkan countries and Turkey in order to identify the causes of inactivity. Among other things, this chapter looks at market mechanisms such as wage-setting mechanisms and wage levels, the segmentation of labour markets, and the effectiveness of labour market institutions, which are all impediments to implementing activation measures.

Chapter 4 first reviews demand-side issues, including labour cost, job security, how employers make human resource choices, legislative barriers, and employers' managerial skills. It then analyses supply-side issues, including the available skills of labour, the going wages and social security contributions, the profiles demanded for job vacancies, the competitive prices of labour in the informal economy and the alternative financial sources available outside work.

Chapter 5 presents a synthesis of the main results from the survey carried out among the PES representatives participating in the CoP on Activation. The survey focused on eligibility for registration as an unemployed person, identifying benefits contingent on unemployment status, and the procedures applied by the PES regarding demanding and supportive activation measures with regard to the unemployed.

Finally, Chapter 6 summarises key demand-side and supply-side challenges, while Chapter 7 provides a list of policy options and recommendations as to what PES can reasonably do to interrupt the vicious circle of high unemployment, informal labour and low job creation.

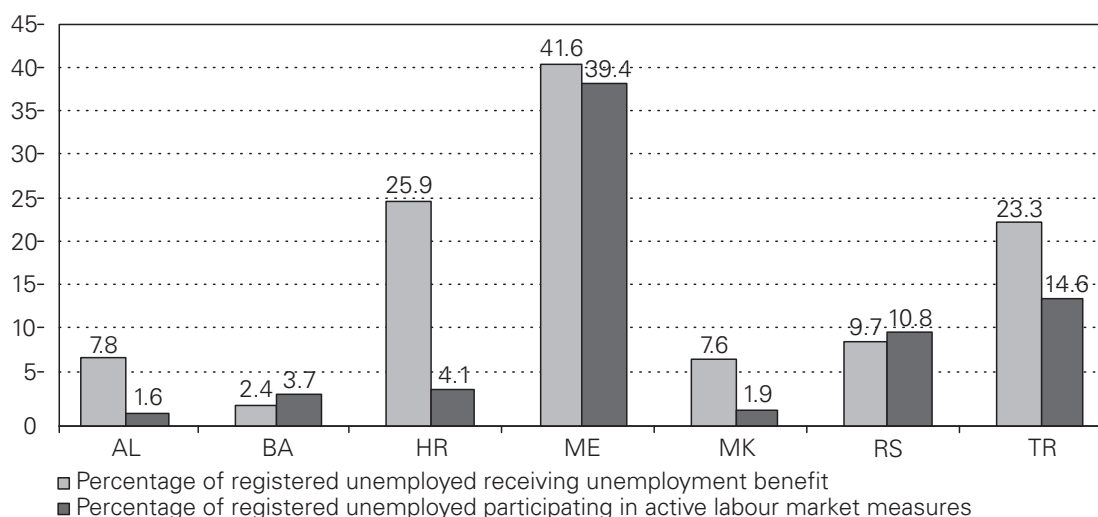
### 3. LABOUR MARKET FEATURES IN THE WESTERN BALKANS AND TURKEY: APPROACH TO ACTIVATION

The systems of labour market management, i.e. of active and passive labour market policies, in the Western Balkans were built up from scratch after the political changes in those countries. The approaches taken to modernise the labour markets often copied systems from EU countries, but not always in a sustainable way.

The labour markets of the Western Balkan countries and Turkey were severely hit by the economic crisis; only Albania and Turkey managed to stay on a continuous growth path. Between 2007 and 2010, activity and employment rates in most cases dropped further, while unemployment rates went up. Bosnia and Herzegovina is an exception, but still shows alarming indicators. Most severely affected is the young population, with more than half of the population aged 15–24 years unemployed in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, and Kosovo (LFS, 2009)<sup>3</sup>.

Employment rates are generally low compared to the EU-27 average, with a typically high gender gap. The employment rate of women is below 30% in Bosnia and Herzegovina, Kosovo and Turkey. Another striking characteristic is that, of those who register as unemployed, only a few are receiving unemployment benefits, except in Montenegro. In addition, few unemployed people are activated as participants in active labour market measures, as the following graph illustrates.

**FIGURE 3.1 ACTIVE AND PASSIVE LABOUR MARKET MEASURES IN THE WESTERN BALKANS AND TURKEY, 2010\***



\* Based on administrative data.

Sources: CPESSEC (2011); for Turkey: ETF calculation based on İŞKUR data; for Albania: Viertel and Nikolovska (2010). Data for Albania refer to years 2009 (active measures) and 2007 (passive measures).

With activation rates below 5%, as in Albania, Bosnia and Herzegovina, Croatia and the former Yugoslav Republic of Macedonia, no tangible impact can be expected. Expenditures on active labour market policies generally amount to less than 0.1% of GDP (the only exception being Montenegro, with 0.3%). The low coverage of the unemployment benefit system provides insufficient social security for the majority of unemployed people, thus aggravating the widespread practice of informal employment. Insurance-based systems such as unemployment benefit schemes have been undermined by low levels of formal employment (Stubbs, 2009) and have come under further pressure from budget constraints in times of economic crisis. The present report will explore this vicious circle in more detail.

The specific challenges identified on the labour markets of Western Balkan countries and Turkey which are also impediments to implementing activation measures are as follows.

- Levels of market competition and labour demand are low.
- Labour markets are segmented with a high degree of informality.
- The effectiveness of institutions is not up to the challenge of activation.
- Poverty reduction, child benefits and the provision of basic health care hinge on formal registration in the PES.
- Budgetary capacity in most countries cannot support extensive active labour market measures.
- There are significant skills gaps due both to the long-term nature of unemployment and education outcomes which do not reflect labour market needs.

Activation measures which have to be designed in this environment must reflect all the interlinked causes of inactivity in the labour markets of the Western Balkan countries. Policies must be integrated and mutually supportive. They should be preceded by efforts to raise institutional capacity in all the institutions which have some responsibility for implementation. The most important actor is the PES, but it must work very closely with other institutions which provide welfare, education and insurance services, as well as the social partners and local authorities, all of whom have a say in refining and improving the functioning of the labour market.

The activation policy framework must include both supportive and demanding measures. On the supportive side, there must be sufficient income security for jobseekers to make informal-sector income unnecessary. This has to be accompanied by stricter demanding measures aimed at curtailing informal-sector employment and at ensuring that jobseekers are actively seeking work and are available for work. Supportive measures geared to increasing the employability of unemployed people are an essential feature of activation policies; in particular they should address the skills gaps which have appeared or are still being created as a result of slow reforms in the education sector.

The candidate countries and potential candidate countries for accession to the EU are a heterogeneous group both in terms of economic development, social welfare systems and, in particular, political and administrative structures. The former Yugoslav countries have some common elements which have, however, been changing in widely different directions over the past two decades. However, there are similarities to be found in the labour markets of the Western Balkan countries, related mostly to the following:

- All have an important shadow economy, albeit of different intensity and spread.
- All have difficulties in activating their working-age populations.
- All have excess labour supply and need to create more jobs.

Furthermore, all the countries need to strengthen their institutional capacities for policy development, planning, implementation, monitoring and evaluation. Another common feature is relatively limited budgetary revenues which can be allocated to passive and active labour market interventions; these tend to sink even lower in times of recession when the needs are highest.

How can the principles of activation work in such a setting? One possible approach is to use an integrated policy framework which has been put forward in the context of *flexicurity*, since the lack of motivation for work and the need for activation have complex causes and there are no simple measures which can be easily implemented.

The flexicurity framework put forward by the European Council of Spring 2007 indicates that flexicurity pathways need to be designed in such a way as to take country specifics into account and that rigid, 'one-size-fits-all' approaches cannot provide answers in the multiple and varying scenarios found around Europe (European Commission, 2007b). However, the framework itself is universal, as it brings together the various factors which need to work together in an integrated policy framework. The basic elements are the legislative framework, which should provide flexible laws and regulations on the labour market, a safety net which is wide enough and guarantees income security, and a portfolio of active labour market measures which facilitates transitions in the labour market.

When studying the behaviour of actors in the labour market it is well worth remembering that factors related to motivation are of crucial importance. While it is observable that what appears to be irrational behaviour is sometimes possible, it is quite safe to suppose that dominant behaviour patterns are the result of rational choice. Actors choose what they perceive will bring them higher benefits compared to other strategies. The lower the chance of finding gainful and secure employment, the more frequently labour-market-related behaviour is motivated by the need to survive. Such strategies can be very complex. However, they do make sense once the wider system is understood.

In order to do justice to this approach we need to understand the characteristics of labour markets in the Western Balkan countries and Turkey – specifically:

- What are the characteristics of the market mechanisms in place, and to what extent do they influence supply and demand for labour?

- How does wage setting affect the motivation for work?
- To what extent is labour market information available to labour market actors?
- What are the characteristics of the legislative, institutional and policy frameworks?

In a diffuse way, labour market actors act upon signals given to them from these complex and interacting systems, and pattern their labour market behaviour in a way which maximises their income given their often multiple roles at home, in the shadow economy, in the formal economy and based on their labour market status.

Our aim is to find out to what extent the present functioning of the labour markets is a result of a system-induced behaviour which is not conducive to competitive, knowledge-based labour markets.

In order to approach the activation agenda it is necessary to look at both the demand as well as the supply side in the labour market. It always takes at least two sides to create a successful match between supply and demand, but more often at least three 'sides' are involved, the third being the institutions which act on both the supply and the demand sides.

Some general features which influence both the demand and the supply sides are:

- the effectiveness of the market, i.e. the extent to which supply and demand can be adjusted to achieve an optimal match;
- the degree of segmentation of the market, i.e. the degree to which the informal economy influences both demand and supply (from unregistered economic activity by firms or individuals to unregistered employment, or any combination of the two);
- the effectiveness of institutions responsible for generating and disseminating labour market information, for matching skills and jobs, for the delivery of life long learning opportunities, for implementing active labour market measures and for providing social security benefits.

### 3.1 MARKET MECHANISMS

Wage-setting mechanisms and wage levels play a role in labour supply and demand. Wages in the public and public-private sector are mostly regulated and trade union presence is strong. However, the private sector outside the large corporate enterprises is usually not unionised. Here, collective agreements are rarely concluded on sector levels, rather on company levels. Flexibility in the private sector is usually practised by employers on the margin: when adjustments need to be made, the most frequent targets are young workers and older workers who are nearing the age when they become eligible for permanent unemployment benefits if they register with the employment service. Undeclared or underdeclared employment (with 'envelope wages') is a common practice to reduce wage costs and avoid extra wage costs.

Finally, there are sector-based differences in labour markets such that dominant sectors as well as export-oriented sectors in the economy often have more pronounced market signals which are reflected in the wage levels.

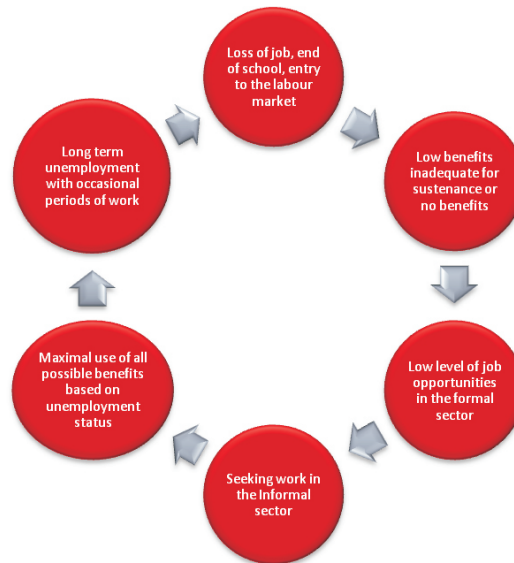
### 3.2 SEGMENTED LABOUR MARKETS

The informal economy is often linked to the formal economy as in a system of linked vessels. When the business environment becomes difficult, for instance in recessions and downturns, a segment of the formal sector sinks into informality. Businesses usually are active in both sectors at the same time. In the legitimate segment all taxes are paid but some of the practices are informal at the same time.

On the demand side, employers will offer employees anything from formal to informal arrangements, especially in small enterprises. If individuals are often confronted with irregular work practices their willingness to participate on the labour market may be limited. Very often they prefer to be self-employed, to act as own-account workers, or to help family members where the insecurity derived from this kind of work is reduced by recourse to safety nets provided by family or friends. A typical scenario is illustrated in **FIGURE 3.2**.

Typically, job loss or first entry to the labour market is followed by registration at the PES. During periods of job search only some unemployed people have access to unemployment benefit, which is in itself too low to cover all living expenses. As unemployment spells extend beyond the duration of unemployment benefit the unemployed stay registered, and if they can prove that they have income levels per family member below the accepted minimum they become eligible for welfare. At this point, the income census which has to be applied can be used for accessing other types of benefit, such as child benefit, a very important source of income for larger families. In fact, this is where many families facing poverty enter into a system that promotes childbearing and supports parents financially through maternity/paternity benefits, which are cumulative in relation to other benefits. At this point, the family enters the world

FIGURE 3.2 THE VICIOUS CIRCLE



of state support, and there are many small cumulative benefits which lead into the poverty trap caused by non-formal work. Small benefits of this kind may include free books for children, subsidised housing and heating, free local transport, and the like. Using all these benefits is a time-consuming activity, since each institution requires proof of status, and often a complex system of monthly cross-institutional confirmations of status is necessary. Complying with these is a job in itself, often undertaken by the woman in the household while the man finds informal work.

In fact, most Western Balkan countries are functioning as poor welfare states, with multiple and often uncoordinated and overlapping benefits which are badly targeted due to the non-transparent overlap between the formal and the informal economies. Reluctance to expand the fiscal base towards all economic activities results in a situation where the formal business sector shoulders the biggest load in terms of taxes, limiting motivation for growth. Tax revenues are disseminated to groups which may not be the neediest but are better able to access benefits. Finally, neither work nor business activity actually pays.

This line of reasoning will be followed below as we explore the demand-related and supply-related barriers to activation policies.

### 3.3 EFFECTIVENESS OF LABOUR MARKET INSTITUTIONS

Most PES in the Western Balkan countries are drastically understaffed. The organisational structures reflect a time in the socialist period when their functions were largely administrative – as they mostly continue to be today. Effectiveness related to administrative goals is entirely different from effectiveness in a modern PES. In the former instance it could be that each client is registered as unemployed and receives a benefit on time without long waiting periods. In a modern employment service these goals are implicit and rank second to the new roles, which include information, career guidance, job mediation, preparation for the labour market and finally employment, as far as unemployed clients are concerned. Employers are also seen as key clients, and they need to have their human resource needs covered in relation to the particular stage of the business cycle in which they are situated, whether this includes more hiring, training or reduction of the workforce.

Therefore, there are complex demands on the PES which exceed administrative support in every sense of the word, although they presuppose that all administrative activities are at a high level of precision and timing.

Even a fleeting look at the staffing levels of the PES in Western Balkan countries shows that the counsellors who carry the greatest responsibility for developing client relationships are fewer in number than financial experts, administrative staff, lawyers, psychologists, statisticians and analysts, and others. When managers at various levels of the service are counted in, the number of counsellors overall may be less than 40% of total staff. Yet counsellors carry 80% of the responsibility for successful delivery of typical PES objectives. As a consequence, the caseload (number of clients per front-office counsellor) is extremely high, for example in Bosnia and Herzegovina and in Kosovo.

The question of goal setting is crucial here. If a country prefers to disseminate benefits to various population groups through unemployment status, then the fulfilment of this administrative goal has to be measured in terms of numbers of persons registered and benefits delivered rather than in terms of employability or employment of the unemployed clients. At this time, when recession has taken its toll in the Western Balkan countries, job opportunities have dwindled to an all-time low and budgetary constraints have become severe, achieving goals other than administrative ones is highly unlikely.

That said, there is a very great need to provide the PES staff with the skills needed to enable them to give meaningful support to employers. Employers should be seen as important partners and clients of the PES. The services provided to employers may include subsidies for staff training and hiring incentives and recruitment support (e.g. pre-screening of suitable candidates for vacancies).

However, the PES is only one of the relevant institutions in the labour market. It has to work in circumstances which often shape motivation for work in ways which do not allow even the best PES services to deliver results against planned objectives. We now turn to systemic factors which may have a negative effect on motivation for work and willingness to search actively for a job, to train for market-related skills or to accept the wages set by market demand and supply.

## 4. EXPLORING SYSTEM-RELATED CAUSES OF INACTIVITY

It is very often said that there is no work ethic in the Balkans, that people prefer to work less and accept lower levels of pay. A saying during the socialist era was: 'They [the employers] can pay me as little as they want, but I can always work less than they pay me for.' This saying reflects a time when it was impossible to be fired for not being diligent at work. However, the cause is system-related rather than evidence of workers' laziness. Proof of that is the diligence of emigrant workers from the region to systems which promote work and make work pay, such as the Balkan diasporas in Germany and Austria, where Balkan workers have created substantial value for their employers and often return home with enough savings to build or rebuild their homes and start their own businesses.

What is it in the Western Balkan countries that might negatively influence the will to work? We will look first at the demand side of the equation and ask how the behaviour of enterprises affects job search and motivation for work.

### 4.1 THE DEMAND SIDE: HOW DO EMPLOYERS VALUE HUMAN RESOURCES?

Relevant questions to be asked here are:

- How does work pay, especially in comparison to the level of education (how large is the wage wedge)?
- How much do incremental changes of wages contribute to net wages or take-home pay for the worker?
- How much do these changes increase the total cost of labour to the employer?
- If such changes are excessive to both, at what point will the employer be stimulated to resort to informal practices?
- To what extent are informal practices convenient for the worker?

#### **The cost of labour**

Even though most Western Balkan countries have reduced their social security contribution rates and have thus narrowed the wage wedge especially in relation to the EU average, it is important to say that EU comparisons are not really relevant except for some exporters in the economy. The most relevant comparison in the various countries is rather the wage differential between the formal and the informal economies. If the wages for identical work are higher in the informal economy, which is often the case, workers will be stimulated to be active in the informal economy, and employers who want to make their workers happy will readily pay part of the labour cost under the counter, to everyone's satisfaction. Most economic actors consider the share of contributions and taxes which the state receives to be too high in relation to the services it provides in return. Therefore, hardly any stigma is attached to evading taxes, avoiding obligations, or selling the state short. In such an environment, especially in the business environment, trust is a rare commodity. Sanctions are few and defaulters from the rules are many, leading to a labour environment where 'bigger fish eat smaller fish'. This system is not a competitive one, rather an unregulated free-for-all which is not conducive to business development simply because the risk is difficult to determine or is too high.

Furthermore, neither regular payment of wages nor their level is reliable, so income security is not high. When a person is faced with the decision whether to work in the formal sector for a minimum wage or work in the informal economy and get social benefits through unemployment status, there is no dilemma: it is financially rational not to work in the formal sector if one can get access to unemployment-related benefits and at the same time work in the informal economy.

#### **Job security**

In the formal business sector the jobs of choice for many people are in public or government institutions. Job safety is highest and there is no downward pressure on wages. Even though wages are not very high, they are regular; working hours are regular and job security is such that there is no risk of defaulting on pension payments. Therefore there is a long queue for public-sector jobs and there is no serious competitive environment here.

#### **How employers make human resource choices**

Selectiveness on the part of employers is very prominent in times such as the present, when there is excess labour. Even though the 'demographic crunch' is almost upon most of the Western Balkan countries except Kosovo, employers are acting as though human resources were plentiful. When choosing from the employment register they prefer

persons with relevant work experience but will discriminate against older workers, women and persons with lower qualifications. Young jobseekers are often employed more easily than the middle-aged, but they are also laid off more easily; investment in their skills is rare and work contracts are getting shorter and shorter. Faced with this approach, workers are aware that they are replaceable, underpaid and insecure. This is, of course, not usually the case in larger firms which need more complex skills requiring time and work experience to develop. Here, once workers have internalised the firm-specific skills they will gain a greater measure of security and are likely to stay in their workplace for longer and to remain more employable.

### Legislative barriers

What are the legislative barriers to hiring, apart from the cost factors? Today, it is rare to hear serious complaints by employers about labour legislation. There is no real call for them to do so, because the possibility of using temporary contracts for most of their new hires gives them all the flexibility they need. Even though they would prefer to be able to make workers redundant for less cost, they have managed to reduce their excess labour over the years and are now nearing optimal levels. Slow processes in labour courts or in workers' cases at ordinary courts still create a high potential risk of negative outcomes where hefty damages have to be paid by the losing party. In such situations, employers will prefer to settle disputes out of court even though they may not be the guilty party.

### Are there gaps in employers' managerial skills?

Another challenge is that of raising the skills of employers to enable them to expand their businesses in an increasingly competitive environment. Management training, particularly in the field of human resource development, is one of the most important measures to be put in place. Putting skills development at the centre of innovation, product development and the attainment of competitive advantage should be a central priority for demand-side policies.

### In summary...

- For many people especially in the former Yugoslav countries it makes financial sense not to work in the formal sector if one can get access to unemployment-related benefits and at the same time work in the informal economy.
- Jobs in the public sector are not very well paid, but wages are regular and job security is highest, so there is a long queue for public-sector jobs and no serious competitive environment in this sector.
- When choosing from the register, employers prefer persons with relevant work experience, but discriminate against older workers, women and persons with lower qualifications.
- Inadequate managerial skills, in particular as regards human resource deployment and development within companies, may be an impediment to innovation and further business development and growth.

In addition, the following factors have an effect on the demand for labour in the formal sector.

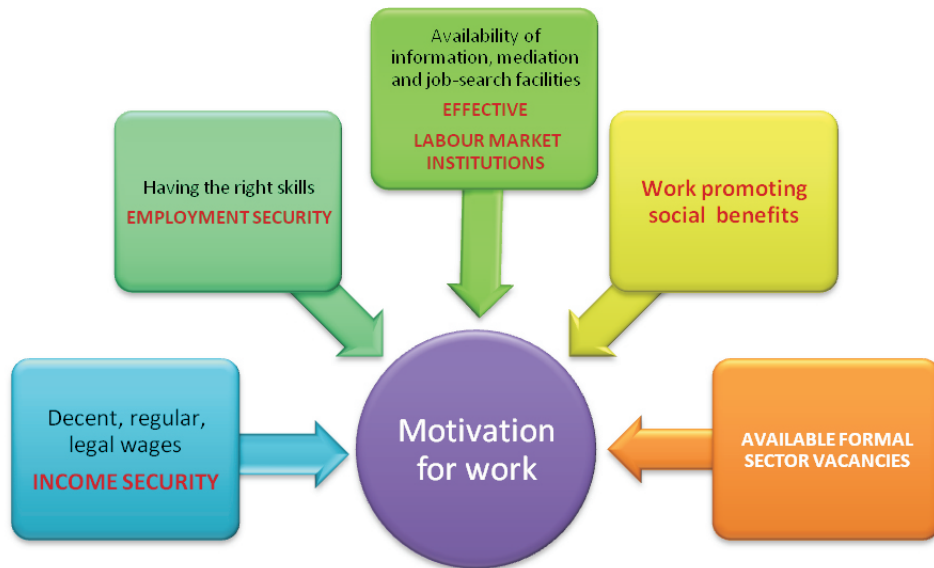
- Relatively high labour costs create a labour-saving attitude and reduce the potential demand for labour.
- Both cost issues and administrative procedures can be reasons for employing 'shadow workers' and thereby reinforcing the segmentation of the labour market. Limited competition on the labour market can lead to higher wages and lower mobility of labour.
- Inadequate sanctions for employers who work outside the regulatory environment and employ informal workers, as well as acceptance of non-adherence to fiscal obligations and labour legislation, help keep sustain the informal economy.
- The frequent practice of paying wages irregularly and defaulting on contribution payments is a strong counter-motivation for work, especially for the higher quality workforce.
- Lack of trust in the business community and between employer and employee is an important barrier to economic development.

The implications for activation of these factors is that the availability of formal-sector vacancies, which is a *sine qua non* for successful activation, is low.

## 4.2 THE SUPPLY SIDE

Barriers to activation on the supply side are easier to spot because the motivation for work depends on factors which are easier to influence.

Labour supply is a function of the available skills of labour, the going wages and social security contributions, the number and the demanded profiles of vacancies, the competitive prices of labour in the informal economy, and the alternative financial sources available outside work. **FIGURE 4.1** shows how some of these elements interact.

**FIGURE 4.1 FACTORS INFLUENCING WORK MOTIVATION**

Starting on the right-hand side of the diagram, the availability of formal-sector vacancies would seem to be an obvious precondition for successful activation to the labour market. If such vacancies are not available, informal activity, mostly in the form of low-productivity survival tactics, will set in and a strong 'discouraged worker effect' will tend to keep activity rates low. In most Western Balkan countries labour demand has been consistently lower than labour supply over the last years. During the best times up to 2008, when employment grew in the whole region by several per cent annually, there was an increase in activity rates and the substantial demographic reserves came onto the more buoyant labour market. However, the qualification structure of these reserves and their 'fitness' for the demands of the modern labour market reveal that the structure of supply requires considerable adjustment in terms of both basic and occupational skills. In all countries, the qualification levels of unemployed and working-age inactive persons, as a group, are substantially below those of the already employed.

Since the informal economy seems to grow with the formal economy, the time of rising labour demand should be the time to try and eradicate the most obvious areas of informality. It has not been observed in the empirical literature that informal-sector jobs are a step in the direction of formal employment, but there is evidence to support the view that policies focused on legalisation under these circumstances could have the desired effect. The legalisation effort is, however, not simple, as it requires simplifying and downscaling taxes to levels which are affordable for low-productivity activities. There must also be clear and immediate sanctions, which may be expensive in the initial phase but will achieve results if persistently applied.

This accentuates the need for strong supportive mechanisms which need to be put in place for successful activation. One of the most worrying factors behind high levels of inactivity is the lack of skills and competencies. This gap can be attributed to educational systems which do not try to align education outcomes with the changing skill needs of the labour market, employers' reluctance to invest in their workers, and the loss of skills through long periods of inactivity or lack of them in the first place. The challenge of investing in people in the Western Balkan countries is huge. It cannot be met through active labour market measures alone, and the employment services cannot be the only institutions implementing such schemes. In fact the necessary main thrust of policy can be summed up in the slogan 'Back to school', for all age groups and for the employed, the employers, the inactive and the unemployed.

### The question of financing

How can this be financed? This question is not easily answered, but one should keep in mind the experience of new EU Member States which became eligible for funding from European Social Funds and had great needs but were unable to address them in a short span of time. The new EU Member States proved that the funding could be put to good use gradually as absorption capacity grew. The focus of funding should be on areas where development potential is greatest and where there is the greatest need to reduce the skills gaps which are creating barriers to development.

There is also a lot of room for improvement in both the targeting and the mechanisms of delivery of active labour market measures. As general measures targeting the hard-to-place or long-term unemployed, these are in line with most EU

employment guidelines, but they often do not result in sustainable employment beyond the duration of subsidy or training.

### **Weak horizontal links with social security and education**

Effective labour market institutions are a prerequisite for effective activation measures. Frequently in the Western Balkan countries there is no clear link between the employment service and the social welfare system, although they share the same clients, all of whom need to be registered as unemployed if they want to benefit from social welfare payments. Although this link seems to impose the necessary demanding measures on the behaviour of social benefit recipients, there is, in fact a rather weak connection between the two systems in most cases.

The link with the education system also tends to be tenuous, and a much more concentrated effort is required to help the many small to medium-sized enterprises (SMEs) to learn how to have a say in modernising education programmes in both the regular and adult education systems. First steps are being taken in some Western Balkan countries to introduce skills councils with the function of identifying skill needs and translating them into education outcomes. Although this is certainly a move in the right direction, the link to local development strategies, which have a very important bearing on future skill needs, is missing.

### **In summary...**

Activation measures are mechanisms for promoting the motivation for work on the supply side by using both demanding and supportive measures. However, we have seen that the demand side also has an important effect on the motivation for work. In order to set up effective measures it is necessary to put in place integrated policy measures at three different levels:

1. general measures which ensure a competitive environment, a continuous effort to reduce the segmented labour markets, and more effective and efficient labour market institutions;
2. demanding and supportive activation measures which are simultaneously applied to the demand and supply sides;
3. meta-policies to improve general and specific skills needed for replacements and new jobs.

# 5. RESULTS OF THE SURVEY AMONG PUBLIC EMPLOYMENT SERVICES

In order to delve deeper into the practices of the countries participating in the CoP on Activation, three questionnaires (see Annex 1) were designed to improve understanding of the various mechanisms of activation in place. The workshop was held in Graz and included participants from Albania, Bosnia and Herzegovina, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia. The participants pointed to some of the main current practices and it was decided to focus on three principal aspects of activation:

- understanding eligibility for registration as an unemployed person;
- identifying the benefits contingent on unemployment status;
- understanding procedures applied by the PES regarding demanding and supportive activation measures for the unemployed.

## 5.1 ACCESS TO REGISTRATION AT THE EMPLOYMENT SERVICE

Because of segmented labour markets, employment is mostly understated and unemployment generally overstated in official data sources in relation to the labour force survey, except in Montenegro<sup>4</sup>. It is a challenge to identify the registered unemployed who have a different actual activity status. The first 'filter' is the registration eligibility rules, which are usually defined in the country's legislation on employment and unemployment-related benefits. If the entry point is not the place to filter out those who may be working in the informal economy or who have no intention of accepting work, huge demands will be placed on the employment service to make sure that those who register adhere to the active job search rules and are available for work. In this sense all the participants of the CoP on activation were asked to state which population groups could register as unemployed, with the following options.

- Students: by international standards, students who are seeking and are available for work can register as unemployed.
- Individual farmers: many in this group are in fact self-employed and often receive agricultural subsidies but may also be registered as unemployed.
- Disabled persons with 100% disability: in some cases even members of this category could be considered part of the workforce.
- Persons with a partial, work-related professional disability: this category often derives from the former socialist labour legislation, whereby persons who had some work-related disability continued to be classified as looking for work in the same occupation even though they could not actually accept such jobs and their main motivation was to achieve some benefits.
- Employed persons: in some countries employment services have opened up their registers to employed persons who may be looking for other jobs, but these persons are usually classified as jobseekers, not as unemployed.
- Pensioners: although formally inactive, pensioners are in fact often economically active regardless of their status, and if they were allowed to register it would be very difficult to monitor their economic activities.

The eligibility criteria for registration were classified as demanding measures or the lack of them in national legislation. Each of the groups received an indicator of 1 if they had access to the register and 0 if not. The sum of the indicators defines the degree of access to the register.

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<sup>4</sup> Montenegro has had the opportunity to reduce the number of its registered unemployed significantly, since it has many seasonal vacancies. Most of these are not interesting to local unemployed people and are mostly filled by immigrant workers. In such a situation, persons who are not interested in such jobs but are actually unemployed do not register with the employment service. On the other hand, all unemployed people who decline jobs offered to them are taken off the register. This has resulted in the registered unemployment count in Montenegro being lower than the labour force survey count, which is rare in the enlargement countries.

## THE RESULTS

The clearest answers received relate to eligibility for registration to the PES register. This is probably due to the care usually taken by the PES administration to adhere to the eligibility rules as they are spelled out in the relevant legislation.

### Eligibility criteria for registration

Overall, the Western Balkan countries tend to have relatively liberal eligibility criteria, those of Bosnia and Herzegovina, Serbia and Turkey being the most generous. The most sensitive group for registration is that of individual farmers, who have two main characteristics: they constitute the biggest economically active group whose economic activities are not evidenced, and so they represent legal informal activities in most of the countries. In some countries, individual farmers have had to choose whether to carry out commercial activities or not. If they do, they can receive agricultural subsidies but cannot be on the unemployment register. Croatia is a special case, having a database of commercial individual farmers, but this does not include all farmers, just those who apply for agricultural subsidies. However, this type of regulation does not exist in other countries and it is also questionable to what extent these regulations are adhered to in Croatia.

The second group which may be hard to place on the register is that of persons with disabilities who have a formal declaration of invalidity. In the former socialist period, many persons with professional disabilities were dismissed from the ex-socialist enterprises. In that system they resisted redeployment to other work places where they could work regardless of their disability, since they had the possibility of retaining their previous salaries. When they came to the register, many of the disabled persons were not properly categorised in relation to the type of work for which they would be suitable. In fact, they often sought the same type of work as they had done previously, even though they had limited ability to carry out such work. Some experiences show that more persons with various disabilities who did not put their disability status forward eventually found employment more easily than those who had access to active labour market measures as disabled. This indicates that a professional assessment of the working ability of disabled people and mediation for jobs where they have normal productivity levels has a greater impact on labour market outcomes than special treatments which include subsidies and other measures focusing on the disabled. This is not to suggest, however, that such measures should be discontinued, but rather that good practices should be analysed for the possible lessons to be learned about identifying jobs where the disabled could be as productive as other workers without disabilities.

Finally, it is important to say that a high degree of openness of the register to all those who would like to look for work for whatever reason should be upheld as a matter of principle. In fact, the ability of the PES to mediate effectively depends on its attractiveness to jobseekers. If there are barriers to registering which demotivate individuals to register this may be reflected in the ability of the employment service to fulfil its main function. If the only attractions are benefits, then it will become very difficult to activate the registered unemployed to search actively for a job or to enhance their employability. This is the reason why the item relating to eligibility of employed persons to register was given the negative mark of -1, indicating that individuals who are likely to be employed, such as subsistence farmers, should indeed not be allowed to enter the register.

**TABLE 5.1** shows the eligibility for registration in all eight countries involved in the Mutual Learning project.

**TABLE 5.1 ELIGIBILITY FOR REGISTRATION: RESULTS OF THE QUESTIONNAIRE**

	AL	BA	HR	MK	XK	ME	RS	TR
Students	0.5	0.5	0.5	0	0.5	0.5	1	1
Individual farmers	0	1	0.5	0	0.5	0.5	1	1
Disabled persons (100%)	0	1	0.5	0	0	0	0.5	1
Persons with work-related disabilities	1	1	0	1	1	1	1	1
Employed persons	-1	-1	-1	0	-1	-1	-1	-1
Pensioners	0	0	0.5	0	0	0	0	1
<b>Total</b>	<b>0.5</b>	<b>2.5</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2.5</b>	<b>5</b>

We can see that regular students are not allowed to register while others who are not in formal further or higher education are welcome. This is not usual in EU countries, where students often do register during summer months or periods between semesters. One of the reasons is that in the former Yugoslav countries there were special mediating institutions specifically for students based on the fact that the taxes they paid were the lowest in the country (only 16%).

Montenegro, Croatia, Kosovo and the former Yugoslav Republic of Macedonia have the same general levels of eligibility but the structure is very different. For example, while in Croatia it is possible for subgroups of students, farmers and disabled persons to register, the former Yugoslav Republic of Macedonia has very restricted entry, even though the final indicators are the same. Two countries, Albania and the former Yugoslav Republic of Macedonia, do not allow individual farmers to register, and in this they are exceptional.

Turkey seems to be a different case. Here there are no benefits other than the unemployment benefit which can be accessed through unemployment status. Therefore, there may be little motivation to register, since the employment service is not the primary mediator for work in SMEs, where most of the jobs are being created.

To conclude, although it is desirable to allow easy entry to the register for anyone who is looking for a job, regardless of their previous position on the labour market, it is imperative either to exclude persons who are actually working according to the ILO definition of work or to give them jobseeker status, not unemployment status. This is important because any demanding activation measures would be very difficult to implement if the actual activity status of individuals was not clear.

This lack of clarity in some of the Western Balkan countries needs to be addressed through changes in legislature aimed at making the distinction between the employed, the unemployed and the inactive very clear. Only then will it be possible, through demanding activation measures, to check subsequently on the activity status of the registered unemployed.

## 5.2 BENEFITS CONTINGENT ON UNEMPLOYMENT STATUS

Overlap between unemployment status and social benefits is one of the main reasons why people seek unemployment status in the Western Balkan countries in circumstances where job openings in the formal sector are not adequate to cover labour supply. Where the national authorities use the unemployment status as proxy for poverty, there is wide scope for the misuse of government resources which are often very scarce. This occurs particularly when universal rights such as health insurance or benefits for particular population groups such as war veterans are also linked to unemployment status. It is clear that demanding measures will have a very weak effect on these types of benefit, which cannot easily be revoked by non-compliance measures. They belong to the sphere of legal rather than optional rights. Administering these benefits alone is a formidable task for the PES in the region, given their limited resources. All the employment services are in the process of modernisation and reform, in itself a daunting task. The goals they design for themselves typically include assuming major responsibility for all the usual EU public service functions, and it is highly questionable how these goals are to be achieved given their level of administrative responsibility for benefit provision.

In order to understand the nature of the link between unemployment status and social benefits, the CoP members were asked to state all the instances of such benefits in their countries. Some examples are the following:

- health insurance / pension insurance
- unemployment benefit
- social welfare benefit (all kinds)
- child benefit
- maternity/paternity benefit
- travel costs
- war veterans' allowance
- small benefits such as lower administrative costs of public services, children's books, participation rates for health services, etc.

### THE RESULTS

#### Unemployment benefit

All the countries in the Western Balkans (except Kosovo) and Turkey have an unemployment insurance scheme with unemployment cash benefits; however, both coverage and levels of benefits are low. Only 2.4% of the registered unemployed receive unemployment cash benefits in Bosnia and Herzegovina and 7.6% in the former Yugoslav Republic of Macedonia. The figures for Croatia (25.9%), Montenegro (41.6%) and Turkey (23.3%) are higher (data for 2010 from CPESSEC, 2011; data for Turkey provided by İŞKUR), but still far below the coverage in most EU countries. Twelve months is the maximum duration of benefit receipt in most of the countries. But given the extremely high proportions of

long-term unemployed in the PES registers, the duration of unemployment is frequently longer than the duration of benefits. The long-term unemployed thus do not get adequate income support during their unemployment spells. Nevertheless, all persons who have the right to an insurance-based benefit of this kind will naturally register to claim it. Large groups of persons cannot claim benefit, for example young people without previous work experience, persons entering the labour market for the first time, persons who have difficulty in finding work with a sufficiently long duration to enable them to become eligible for unemployment benefit, and people who have been offered work contracts which do not require payment of insurance in case of unemployment, such as authors' contracts, which are usual for the arts, media and research activities.

As well as the level of benefit being too little to provide income security, the low replacement rates of unemployment benefits create a situation in which unemployed people are forced to work in the informal economy even though they are registered as unemployed. There have been attempts to make some work legal even for the unemployed. The 2003 Law on Mediation and Unemployment-related Benefits in Croatia made it legal for the unemployed to work and stay registered as long as their earnings did not exceed the minimum level of benefit. Data on the earnings of the unemployed were crosschecked with the institutions responsible for monitoring the payment of contributions, and those unemployed who exceeded the earnings limit were taken off the register. There are typically several thousand such cases per month. In this case it could be said that the status of unemployment actually does not refer to the performance of zero hours of work but to the performance of hours of work for which individuals are paid less than the minimum unemployment benefit. Unemployment benefit recipients are, however, not allowed to earn additional income, and if they do this will be certainly in the informal economy.

In Croatia, attempts to raise the levels of unemployment benefits and link benefits to previous wages in order to raise replacement rates had to be reversed as a result of the large numbers of new unemployed; this placed a great strain on the budget during the 2009 recession.

When we look at the incidence of loss of unemployment benefit due to not following up a call from the employment service, we can see that this does not happen very frequently. In fact, most of the individuals who have claimed the right to a permanent unemployment benefit until they find work or until they retire are not often called upon for any purpose<sup>5</sup>.

### Health insurance

From **TABLE 5.2** we can see that, apart from unemployment benefit, all countries in the region except Croatia, the former Yugoslav Republic of Macedonia and Turkey link health insurance to unemployment status. In some countries, such as Montenegro, there is even higher motivation to register, since all dependents in the family get health insurance through the unemployed person, and loss of unemployment status becomes a serious issue. In Croatia, health insurance is not contingent on unemployment status and in Serbia, only the recipients of unemployment benefit can claim health insurance through unemployment status.

This particular benefit is surely one of the most important motivational factors for registering at the PES. By definition, all young people automatically register after graduation and so do all previously inactive people who have not had health insurance independently before. (Usually young people up to the age of 18 claim health insurance through their parents; after that they have to register as unemployed to get health insurance if they are not working.)

Any demanding measures which could have the loss of health insurance as a consequence of non-compliance are certainly too drastic and are unlikely to be undertaken lightly by PES administrations. Since there are positive examples which indicate that it is possible to administer health insurance in alternative ways, this reform would be easiest to implement as in the case of Croatia. There must, however, be enough political will to transfer the administrative burden to institutions responsible for health insurance, but such a suggestion is often met with considerable opposition.

### Social welfare benefits

These benefits are usually contingent on unemployment status in all the countries which have them as a form of poverty reduction measure. Typically, all recipients are registered and they are usually the hardest to place as well. It makes sense that such persons are registered in order to make sure that they take up job offers when these opportunities arise. It seems very likely that dropping out of the work-related institutions would eventually lead to even greater exclusion than they are experiencing now.

<sup>5</sup> Until 2010, registered unemployed persons with five years or fewer of service left before retirement could retire providing that the conditions for early retirement were met. Now they have to have at least 32 years of service for men and 30 for women, and they have to wait until the conditions for old-age retirement have been fulfilled (65 years of age for men and 60 years for women). Given that this whole population has a 'permanent' benefit, one would expect the employment service to intensify activation measures towards these groups, but in fact they are left alone for the most part and are very rarely called in for mediation. This shows that there is a tacit agreement between the older unemployed with unemployment benefit and the PES counsellors to the effect that they interact as rarely as possible, to their mutual interest.

**TABLE 5.2 PES REGISTER AND SOCIAL BENEFITS: RESULTS OF QUESTIONNAIRES PERTAINING TO SOCIAL BENEFITS**

Type of benefit	AL	BA	HR	MK	XK	ME	RS	TR
<b>Unemployment benefit</b>	✓	✓	✓	✓	✓	✓	✓	✓
<b>Health insurance</b>	✓	✓	–	✓	–	✓ (including family members)	✓ (only unemployment benefit beneficiaries)	–
<b>Social welfare</b>	optional	optional	✓	optional	optional	✓	optional	–
<b>Child benefit</b>	✓	optional	✓	optional	optional	optional	optional	–
<b>Maternity benefit</b>	–	✓	✓	✓	–	✓	–	–
<b>War veteran assistance</b>	–	✓	–	–	–	–	–	–
<b>Pension insurance</b>	–	–	Unemployment benefit beneficiaries with 5 or fewer years to retirement	–	Unemployment benefit beneficiaries with fewer than 5 years to retirement	–	–	–
<b>Agricultural subsidies</b>	–	–	–	–	–	–	–	–
<b>Travel costs</b>	–	–	✓	–	–	–	–	–

In Albania and Bosnia and Herzegovina it is not mandatory to register as unemployed to claim welfare payments. In Croatia, Kosovo and Montenegro it is mandatory, but in Serbia and the former Yugoslav Republic of Macedonia the link between unemployment status and welfare payments seems to have been strengthened. It would be very interesting to assess the value of treating poverty issues separately from work-related activities. On the one hand, it makes good sense to deal with the incidence of poverty regardless of how it came about. A parallel can be drawn with attention to persons with disabilities. In the early post-war years in Croatia and nowadays in Bosnia and Herzegovina, war veterans who were disabled during the war were in a financially much more favourable position than disabled civilians. This discriminatory practice was eventually discontinued to a certain extent, but it does make sense to address poverty equally regardless of its cause (unemployment, loss of ability to work as a result of a disaster of some kind, or other causes). On the other hand, unemployment is the most frequent cause of poverty, and linking poverty reduction measures to unemployment status also makes practical sense.

Finally, whatever the direct cause of poverty, it is important to insist on enabling and supportive measures which will help the poor to sustain themselves and their families by working rather than falling into an inactivity-related poverty trap. However, pathways back to the labour market are difficult and costly, and require specific approaches according to the individual needs of welfare recipients.

One of the most frequent mechanisms of accessing work for social benefit recipients are public works. Sometimes, such opportunities are the only hope for these persons since private employers rarely show an inclination to engage them, for various reasons which often border on discriminatory behaviour. However, more often low employability is due to multiple causes, requiring a complex set of measures to regain employability.

Given the relatively low level of resources in the PES of Western Balkan countries, expectations of a higher level of support for social welfare recipients to integrate them into the mainstream labour market are unlikely to be met, in terms either the of time or the financial resources necessary to allocate to this unemployed group. Cooperation with NGOs qualified to work with specific groups of disadvantaged people is a relatively rare practice.

There are, however, several changes which could be introduced, such as forming cross-institutional teams from the employment service and the welfare centres which could also include members of civil society who usually target specific groups of excluded people. In this case, time could be saved more effectively. A good practice of this kind of coordination between the PES and the social welfare centres can be observed in Slovenia (DTI, ÖSB et al., 2009).

For working-age welfare recipients who are able to work, several barriers decrease their motivation to take up work. Firstly, the process of accessing welfare payments once work is discontinued is lengthy and beneficiaries have no funds to bridge the time it takes to get the first payments. Secondly, work which they can get is often not permanent and pays only slightly more than the sum of all payments which can be accessed from various welfare-related sources. Thirdly, any economic activity undertaken of the kind which often takes place in parallel to receipt of benefits would have to be discontinued and would be difficult to regain. Unfortunately, all these factors reinforce the status quo as regards the behaviour of welfare recipients, on top of all the problems they have in finding a job in the first place. The inertia of the system is reinforced by the low capacity of the PES to devote serious time and resources to such activities, and the outcomes are usually long-term unemployment, benefit dependency and exclusion.

### **Child benefits**

The motivation for introducing child benefits is clear. It is a measure which raises the income of families with children in order to ensure that they have adequate funds to raise their children in spite of their low earnings.

An analysis by Jaumotte (2003) has shown that child benefits can have adverse effects on women's motivation to work. Since such benefits raise the overall income level of the low-income family, it raises the woman's reservation wage and may decrease the incentive for her to go out and work. The expected wage could easily be higher than the going market rate, making inactivity the rational behaviour pattern. The same study has shown that availability of child support institutions has a much greater effect on women's motivation to work; accordingly, many OECD countries have shifted to measures of this kind rather than child benefits, which do not stimulate economic activity but raise dependency levels.

The provision of child benefits in Croatia is an interesting example. Each household with earnings below 50% of the annually determined budgetary baseline (1,663 kuna or EUR 228 per month in 2011) can apply for child benefit. If earnings per household member are less than 16.34% of the baseline (EUR 75) each child can get 9% of the baseline, or EUR 41. There is a progression whereby the child benefit is reduced when higher earning levels are attained. It may be worthwhile making a single institution responsible for all types of financial benefit rather than have the institute for pension insurance deliver the child benefit, the ministry of health deliver social welfare, the centres of social welfare determine the need, and the PES make sure that recipients are active jobseekers. The administrative cost of carrying out the means testing required for child benefits that are awarded separately from welfare payments is very high, and the process is cumbersome and slow. Applicants have to collect and present many confirmations of status, previous earnings, family members' birth certificates and tax forms, when responsible institutions could more efficiently exchange information between them.

In most of the Western Balkan countries applicants for child benefits do not have to be registered as unemployed; rather it is an option. However, in practice most applicants are registered even if only for other benefits. Some countries do not provide child benefit at all.

### **Maternity/paternity benefit**

Measures of population policy are not infrequent in Western Balkan countries where the demographic situation is grim. Even before the war, populations were ageing in all former Yugoslav republics apart from Kosovo and parts of Bosnia and Herzegovina. War worsened this picture, mostly through loss of life among younger men but also through significant emigration from the whole region.

Only Bosnia and Herzegovina, Croatia, Kosovo and Montenegro have maternity benefits which are contingent on registered unemployment status. This is not the case in the former Yugoslav Republic of Macedonia or in Serbia, and in Turkey no such benefit exists because the country's population is young.

### **War veterans' allowance**

This benefit is present only in Bosnia and Herzegovina and is contingent on unemployment status. This is a strong motivator for eligible persons to register as unemployed. The benefit is not means tested. Such general targeting is unreasonable in this country with low budgetary potential but may be opportune from the political perspective.

### **Other types of benefit**

Dozens of benefits of different kinds accrue to the unemployed, but accessing them is a complex process. Many are small and seemingly insignificant but they add up to a significant amount; however, the institutions granting the benefits rarely cooperate.

**In summary...**

Providing benefits for various purposes and through multiple institutions is the usual method by which poor welfare states in the Western Balkans function. Unless these income support measures are not redesigned in order to encourage greater motivation for work and better targeted at those in need, unemployment levels will remain excessively high and PES services will remain overloaded with benefit administration.

## 5.3 DEMANDING AND SUPPORTIVE MEASURES APPLIED BY THE PES

The third group of questions relates to procedures in the PES, especially the initial identification of persons who may be in danger of long-term unemployment or those who need various degrees of support to improve their position on the labour market.

If an optimal mix of supportive and demanding approaches is to be applied, new entrants to the register need to be properly categorised, with an appropriate profiling system. Profiling systems help in the diagnosis of individual employability, assessment of the risk of long-term unemployment, determination of the level of assistance each applicant may need, and appropriate targeting of services (Weber, 2011). The efficiency of these procedures is closely related to the institutional capacities of PES and the activation approaches they apply. The questions raised in the questionnaire included the following:

- Is there a profiling (categorisation) process of new entrants to the register?
- What are the categorisation possibilities and how many of the unemployed have received the various categorisations in the course of 2008?
- What are the follow-up procedures after categorisation?
- What is the timeframe for recategorisation and what events lead to automatic recategorisation?
- Is participation in active labour market measures recorded in a database?
- Is participation in active labour market measures a trigger for recategorisation?
- Which monitoring methods for active labour market measures are being implemented?
- Do you record the incidence of new entrants who had been participants in active labour market measures?
- How is availability for work monitored?
- What are the numbers of vacancies declared to the PES in the four quarters of 2008?
- How many difficult-to-place clients found employment without participation in active measures?
- What is the highest participation in active labour market measures ever and what percentage is that of total registered unemployment?

**THE RESULTS**

Even though the concept of categorisation was made clear in the presentation preceding the deployment of the questionnaire, it is clear that quite a few country representatives did not link it to the process of identifying groups of unemployed people in relation to their employability, i.e. their marketable skills. Once prompted about categorisation mechanisms, several PES indicated that they categorise according to applicants' qualifications, the likelihood (or not) that they are active jobseekers, their eligibility for various forms of benefit, and so on. However, the results show that there is no clear, shared understanding of the need to categorise, and this brings us back to previous sections where we noted that persons receiving benefits were in fact not activated since it was assumed that they would no longer seek work.

Croatia and Montenegro seem to have the clearest categorisation processes, with three categories:

- persons who have marketable skills and can immediately start a job search based on a professional plan drawn up between the unemployed person and his/her counsellor;
- persons who tend to need simple support measures such as vocational guidance, seminars on how to look for work, attendance at job fairs, activity in job clubs, etc.;
- the hard-to-place unemployed, who need the most support.

Coverage of the unemployed by active labour market measures (generally referred to as the 'activation rate') is low and cannot have a major impact on the overall unemployment rate or on long-term unemployment. Evaluations of the results of measures are rarely or irregularly conducted.

**In summary...**

Structurally, the characteristics of the unemployed persons who typically appear on PES registers are such that inactivity on the one hand and employment in the informal economy on the other make it very difficult to fulfil some of the typical goals and functions of public services. In addition to legislation which does not clearly distinguish between employed, unemployed and inactive persons, the processes in the PES do not contribute in all countries to screening and identifying those who are employable and those who need different kinds of support measure (Croatia, Serbia and Montenegro being exceptions). Given both the scarce resources of the PES and limited vacancies, demanding measures are difficult to implement.

As pointed out above, the **general challenges** faced by the Western Balkan countries linked to activation are:

- limited competition on the labour market and low levels of mobility;
- segmented labour markets with a sizeable shadow economy;
- inadequate institutional capacity of labour market institutions.

From the above analysis, the main challenges concerning activation from the **demand side** are:

- Labour demand in the formal sector is limited, which in turn limits activation policies.
- Work in the formal sector does not pay for the low-waged worker, but the total labour cost is perceived as high by the employer, and this reduces labour demand.
- Demand in the informal economy is an element which limits the effectiveness of active labour market measures.

On the **supply side** the main challenges are:

- Low skill levels among the working-age population, particularly among the unemployed and the inactive, make activation difficult and expensive.
- The supply of labour is curtailed at the lower end of the qualification scale by low wages in the formal sector which are no higher than combined social benefits plus informal employment.
- Conditions of work and pay are uncertain.
- Budgets for a reasonable coverage of passive and active labour market measures are limited.

# 6. POLICY OPTIONS AND RECOMMENDATIONS

A possible approach to policy options must start from the fact that the activation agenda requires an integrated approach. Activation challenges cannot be addressed by labour market policy instruments alone nor can labour market institutions be the only actors for implementing the policies.

## 6.1 DETERMINING POLICY PRIORITIES

### Facing barriers at the general level

In determining policy priorities it is important to start by addressing the main impediment to activation in the Western Balkan countries, which is slack labour demand in the formal sector. This challenge is ultimately linked to economic development policy, regional policy, industrial policy, fiscal policy, investment policy, entrepreneurship development policy, and others. Of particular interest are measures which will increase and strengthen competition, labour mobility, a conducive entrepreneurial environment, and a stable, open regulatory framework which facilitates enterprise creation, innovation and growth. The social framework within which such policies develop should have participatory elements built in so as to increase the likelihood that policy measures are consensual and are thus more likely to be implemented.

Every policy measure for boosting job creation must contain elements which will reduce informal economic activity. This usually implies that mechanisms must be put in place for the gradual legalisation of existing informal activities, with very clear supportive steps which are affordable by the informal and/or self-employed workers but also with very clear and operational demanding measures, including sanctions. This is a long process and requires a high level of commitment and perseverance on the political level.

As well as creating a macroeconomic environment conducive to job creation, countries need to put in place sectoral policies which promote sectoral development in line with national development strategies, and local and regional development goals have to fit into national development strategies.

An integration of policies along this vertical policy development axis will generate a framework for covering the secondary demand requirements, namely the skills which support sectoral, local and regional development needs. The human resource development planning horizon is the medium to long term, since skills cannot be developed overnight. This scenario may seem a long way from a more pragmatic policy arena for activation policies, but any partial approach which is not integrated into these long-term structural adjustment mechanisms cannot be successful. It makes sense to set different planning periods for the various policy options so that full integration can take place at some more distant date, as long as there is convergence of all short-, medium- and long-term policy options.

### Dealing with the cost of labour

Several issues have to be dealt with here. The longer-term policy of reducing the informal economy should eventually result in the widening of the tax base, which will enable a reduction in tax rates. Particularly important are contribution rates in the public insurance system against unemployment, health and old-age risks. As long as there is a possibility that only some beneficiaries – those employed in the formal sector – pay insurance premiums while others benefit from the various public services, the system will not be sustainable and the contribution rates will have to be kept high, causing a burden on labour cost disproportionate with the existing returns from labour.

Higher levels of competition with easy entry for enterprises to more lucrative sectors should also reduce the cost of labour and increase the labour demand. The net wages in the informal economy for jobs requiring low to medium qualifications are often higher in relation to the formal sector because there are no taxes involved. If the wage gap between the formal and informal economies is reduced, there will be more motivation on the side of both employers and employees to 'go formal'

Making work pay is perhaps the most important policy measure because it is relevant for all the groups of people who are experiencing negative labour market outcomes, such as young people, women, and those with lower qualifications. Hiring first entrants to the labour market, in particular, should be cost-light to the employer, but employers should not be allowed to misuse this opportunity. The rationale for this flexibility at the point of labour market entry is that persons without experience need to learn practical skills before they can create value. In this sense, part of the cost of practical training may accrue to the labour market entrant, part to the state and part to the employer.

## 6.2 SUPPLY-SIDE MEASURES: THE SKILLS CHALLENGE

Although it seems easier to implement measures on the supply side, it is still a demanding task, since motivation for work is influenced by many factors. The biggest supply-side challenge to activation is the existing skills of the job seekers. The jobs which matched existing skills have almost all gone in the process of transition, and the new skills requirements are different. The dynamic growth experienced in the Western Balkans until 2008 indicated very clear skills shortages. For example, the construction boom driven by state investment in infrastructure and private investment in housing in Croatia showed how difficult it was to find workers in the numbers demanded, in the right place, with appropriate skills and willing to accept the going wages. The many unemployed with similar occupations could not be mobilised for various reasons (age, sickness, wrong skills), and working permits for foreigners were issued to satisfy the demand. The same situation is regularly faced in Montenegro, where seasonal migrant workers outnumbered the unemployed at one point in 2008.

A strong effort is needed to raise the motivation for learning and to put labour market needs into the forefront of supply-side policies. Labour market training tops the list of active labour market policies. The Western Balkan countries all have some form of active labour market measures which offer vocational training, retraining or the uptake of various basic generic skills. However, even though the measures and numbers of participants have increased over the last few years, the increase is insignificant in relation to the needs. Effective training measures maximise job placement results and therefore need to be implemented in close cooperation with employers, bringing together the supply side and the demand side. It is imperative that the training programmes provide qualifications needed by the labour market. Skills mismatches can be reduced only if the contents of training are based on a reliable analysis of skill needs and if all groups of the workforce – employed and unemployed – are included.

# 7. CONCLUSIONS AND RECOMMENDATIONS

We have seen from the evidence presented above that PES obviously have an important role to play in the implementation of activation measures. It is also clear that the PES alone cannot be expected to be the only responsible institutions in this area.

The most obvious and important partners for the PES are the social partners at all levels – social welfare centres, educational establishments, local authorities and the responsible ministries. All partners should take part in local employment partnerships, national sector councils or similar institutions which are responsible for aligning education outcomes with labour market needs. Each partner should be involved appropriately in local and regional development working groups, where skill needs have to follow regional development plans.

Coming back to the key question of what can reasonably be done to interrupt the vicious circle of high unemployment and informal labour and low job creation, some conclusions and policy recommendations can be derived from the foregoing analysis and debate. This cross-country analysis closes with a short list of these.

## **On eligibility for registration as a jobseeker**

1. There must be a clear definition of employment, unemployment and inactivity. Farmers not available for work should not be able to register as unemployed. The same applies to students. If persons are not capable of working as a result of illness or disability, they should not be on the unemployment register merely for the purpose of receiving some benefit; their remaining working ability should be assessed and possible jobs found related to that ability.
2. Those registered as unemployed and working in the informal economy should be given the opportunity to legalise their position. They should be given support but only if they apply for it. Others who are found working while registered should be taken off the register.

## **On resources, capacities and service delivery of the PES**

3. The employment service urgently needs more resources for its work. Implementing activation measures cannot be done effectively when the caseload is very high. The main activation measures should be frequent and meaningful contacts between counsellors and jobseekers. The proportion of counsellors who are working directly with clients should be increased at the expense of administrative and 'back-office' posts. Incentives and benchmarks could be introduced to motivate optimal placement results. Cooperation with private employment agencies could be an additional option, provided that the rules and responsibilities are clearly defined.
4. In view of low female employment rates, it is highly recommended to develop and implement gender mainstreaming approaches. Targeted approaches for disadvantaged women (low-skilled women, women with family care duties) need to be combined with gender mainstreaming to make sure that the employability of women is increased and that both women and men are participating in all measures according to their share in the working-age population.
5. PES should use the option of outsourcing support services for specific vulnerable target groups to NGOs who have experience and expertise in the field.
6. PES services to employers should be further strengthened and developed in order to canvass for more vacancies and improve the reputation of the PES as reliable service providers for employers. This implies a change of mindset in some employment services from an administrative function to a service function towards employers.
7. Active labour market measures should be regularly evaluated to assess their impact, and funds strategically directed to the most effective approaches.
8. Activation approaches should include both supportive and demanding measures. Supportive measures are needed to increase employability and provide basic income security for jobseekers, thus making informal-economy income unnecessary. This must be accompanied by stricter demanding measures to tackle informal employment and to ensure that jobseekers are actively searching and available for work.

## **On skills matching**

9. Labour market training is a cornerstone of PES active labour market measures. The results are measured in terms of job placement rates. This requires close cooperation with employers and shared information about future skill needs. Economic sectors should be systematically screened in order to identify crucial occupations and to monitor changing skill needs. Training providers should plan their training programmes on the basis of these

analyses and have an ongoing dialogue with employers and analysts on present and future skill needs (employment partnerships, human resource development centres, sector councils).

10. There should be a system in place which systematically collects and transfers inputs from the local to the national labour market. The employment service is possibly the only institution which has some preconditions for serving such a labour market information system for human resource needs. The ultimate beneficiary should be the central government administrations responsible for economic development planning and the development of human resources.



**QUESTIONNAIRE 2 ACCESS TO REGISTERED UNEMPLOYMENT STATUS****Can the following categories register as unemployed?**

Categories	Yes/No	Comments
Students (indicate which students can)		
Individual farmers		
Disabled persons with 100% invalidity		
Persons with partial, work-related disability		
Employed persons		
Pensioners		

**QUESTIONNAIRE 3 PROCESSES OF CATEGORISATION OF THE UNEMPLOYED IN THE PES**

Questions	Answers	Comments
Is there a categorisation of the new entrants to the PES register in your country following first interview? (Yes/No)		
Name the possible types of categorisation of the unemployed in the PES in your country. State the percentage of the unemployed who have a particular categorisation at the end of 2008.		
Which procedures are envisaged after each of the categorisations?		
What is the timeframe for revising the categorisation of the unemployed?		
Describe the types of event which would lead to automatic re-categorisation.		
Do you register (in a database) participation of unemployed persons in active labour market measures?		
Does participation in active labour market programmes necessarily change the categorisation?		
Please describe some of the key elements in the monitoring of active labour market measures (at least 10).		
Do you cross-check whether a new entrant has been a beneficiary of active labour market measures in the past? Do you include the employment record into the profile?		
Do you monitor availability for work of the registered unemployed? Explain how.		
What is the number of vacancies declared to the PES in January, April, August, December?		
How many unemployed who had been categorised as difficult to place found employment in 2008 and 2010 without active labour market programmes?		
How many unemployed participated in active labour market programmes in the best year of implementation? What percentage is that of all unemployed?		

## ANNEX 2. MEMBERS OF THE COMMUNITY OF PRACTICE ON ACTIVATION

Lizzi Feiler	ETF labour market specialist, coordinator of the CoP on Activation
Sanja Crnkovic-Pozaic	Expert, Axis International, Zagreb
<b>Albania</b>	
Vasil Muka	National Employment Service, Ministry of Labour, Social Affairs and Equal Opportunities
Arjeta Ndrriço	Employment Policies Department, Ministry of Labour, Social Affairs and Equal Opportunities
Neshat Zeneli	Vocational Training Department, National Employment Service
<b>Bosnia and Herzegovina</b>	
Petar Golemac	Public Employment Service of Hercegovacko-Neretvanski Canton
Haris Huskic	Labour Market Department/Employment Sector, Federal Employment Institute
Samir Zuko	Local and International Labour Market, Labour and Employment Agency of Bosnia and Herzegovina
<b>Croatia</b>	
Irena Bacelic	Employment Preparation Department, Croatian Employment Service
Aleksandra Stengl	Placement and Active Labour Market Department, Croatian Employment Service
<b>Former Yugoslav Republic of Macedonia</b>	
Veljka Juran	Sector for Active Employment Policies, Employment Service Agency of the Republic of Macedonia
Sasho Piperkov	Sector for Active Employment Policies, Employment Service Agency of the Republic of Macedonia
Abdusamed Shabani	Employment Service Agency of the Republic of Macedonia
<b>Kosovo</b>	
Nazim Gashi	Labour and Employment Department, Ministry of Labour and Social Welfare
Hafiz Leka	Labour and Employment Department, Ministry of Labour and Social Welfare
Defrim Rifaj	Labour and Employment Department, Ministry of Labour and Social Welfare
<b>Montenegro</b>	
Jovan Kostic	Sector for Employment, Employment Agency of Montenegro
Branka Rackovic	Head Office, Employment Agency of Montenegro
<b>Serbia</b>	
Sladana Jelusic	Department for Vocational Education and Training, National Employment Service of the Republic of Serbia
Marcela Vuinac Obucina	Department for Vocational Education and Training, National Employment Service of the Republic of Serbia
Jelena Vasic	Employment Department, Ministry of Economy and Regional Development
<b>Turkey</b>	
Çağatay Gökyay	Labour Force Adjustment Department, Turkish Employment Agency (İŞKUR)
Serkan Yücel	Turkish Employment Agency (İŞKUR)

# ACRONYMS

<b>CoP</b>	Community of Practice
<b>ETF</b>	European Training Foundation
<b>EU</b>	European Union
<b>ILO</b>	International Labour Organisation
<b>IPA</b>	[European Union's] Instrument for Pre-accession Assistance
<b>LFS</b>	Labour force survey
<b>NGO</b>	Non-governmental organisation
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>PES</b>	Public employment service(s)
<b>VET</b>	Vocational education and training

## Country codes

<b>AL</b>	Albania
<b>BA</b>	Bosnia and Herzegovina
<b>HR</b>	Croatia
<b>ME</b>	Montenegro
<b>MK<sup>6</sup></b>	the former Yugoslav Republic of Macedonia
<b>RS</b>	Serbia
<b>TR</b>	Turkey
<b>XK<sup>7</sup></b>	Kosovo

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<sup>6</sup> Provisional code that does not affect the definitive denomination of the country to be attributed after the conclusion of the negotiations currently taking place in the United Nations.

<sup>7</sup> Provisional code used by Eurostat.

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## CONTACT US

Further information can be found on the ETF website:

**[www.etf.europa.eu](http://www.etf.europa.eu)**

For any additional information please contact:

European Training Foundation  
Communication Department  
Villa Gualino  
Viale Settimio Severo 65  
I – 10133 Torino

E [info@etf.europa.eu](mailto:info@etf.europa.eu)  
F +39 011 630 2200  
T +39 011 630 2222

