



# HUMAN RESOURCES DEVELOPMENT IN CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES



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## Foreword

This document brings together the latest information that the ETF has compiled on the situation of vocational education and training in the countries that will be covered by the Instrument for Pre-Accession (IPA) to be launched by the European Union at the beginning of 2007.

The country sections present an overview of the social and economic context of each of the IPA countries, an analysis of the education system and a short review of the main initiatives in education and training carried out by international donors in the country. Each country chapter also puts forward suggestions for future donor investments in the HRD sector.

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# INTRODUCTION

## 1. How human resources development can contribute to the Instrument for Pre-accession

Human resources development (HRD)<sup>1</sup> plays a key role in developing people's skills and knowledge. It helps promote more active citizenship in society, and can make a fundamental contribution to increasing prosperity, employability and social cohesion in modern market economies.

Developing human capital is therefore one of the EU's main priorities as regards the Lisbon agenda. Policy makers see HRD as an essential ingredient in underpinning the development of transition economies. In countries with relatively weak education and labour market systems, the return on investment in HRD can be especially high.

This paper outlines the contribution investment in HRD can make towards achieving the goals of European pre-accession assistance, and is also intended to inform the forthcoming debate on the Instrument for Pre-Accession Assistance (IPA) in the EU institutions. It draws on the expertise the European Training Foundation (ETF) has built up as an active promoter of human resources development in candidate countries and the countries of the Western Balkans over the period 1995–2005. On the basis of some of the lessons learned from the EU's investment in HRD over the last decade, it provides some indications of how HRD can help meet the broad policy objectives outlined in the draft IPA, recommends ways in which the measures proposed in the draft instrument can be taken forward to ensure effective and sustainable reform, and suggests the contribution a specialised agency such as the ETF could make to this process.

### *Summary of recommendations*

On the basis of the analysis made in this paper about human resources development (HRD) in the current candidate and potential candidate countries preparing for accession to the EU, the ETF recommends the following for each country:

- Design a comprehensive and integrated lifelong learning strategy;
- Make this strategy a key component of an employment action plan based on the European Employment Strategy;
- Work in close partnership with the main stakeholders and social partners;
- Increase investment in HRD by devoting adequate resources to the different components of the strategy, especially adult learning and work-related training;
- Continue systemic reforms of education and training systems, using the instruments, principles and references developed by the EU;
- Improve the performance of systems in line with indicators for monitoring the Education and Training 2010 programme and especially the EU education benchmarks and employment targets;
- Continue learning from the experience of the new EU Member States and from the ongoing development of HRD policies in the EU, using networking as appropriate;
- Optimise use of the IPA as the main instrument to support these policies and the ETF an appropriate agency to help pre-accession countries make the best use of the IPA in this respect;

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<sup>1</sup> For the purposes of this paper, the term HRD is used broadly to cover investment throughout the education and training sector, including formal education at all levels, continuing training, and activities linking education and training and the labour market.

- Ensure an appropriate and efficient use of the proportion of IPA resources devoted to HRD.

## 2. Why invest in human resources?

The ETF firmly believes that education and training play a key role in promoting social and economic well-being. This belief is based on more than ten years of practical experience in helping partner countries reform their education and training systems. Academic research backs up this experience and provides a strong rationale for investing in HRD compared to other sectors.<sup>2</sup> Recent research findings show that:

- One additional year of schooling can increase aggregate productivity by 5% in the immediate term and a further 2.5–5% in the long term. Overall, the average rate of return for an additional year of schooling is over 10%, particularly in low-to-middle income countries.
- The direct return on investment from human capital is estimated to be at least as high as that on investment in physical capital.
- Improved educational attainment can increase employability and substantially reduce the risk of unemployment. Importantly for transition economies, education can also contribute to entrepreneurship by creating awareness of the possibilities of self-employment and developing the relevant skills.
- Education gives people a stake in the growth and prosperity of their countries. An additional year of schooling can increase an individual's wages by 6–9%. There is also evidence that on-the-job training plays a key role in improving individual wages.
- Finally, education and training are generally accepted as vital factors in improving social capital, health, active citizenship, social stability and crime reduction.

## 3. Lessons learned from HRD reform and EU support in candidate countries and potential candidate countries 1995–2005

It is clear that investing in human resources can be an efficient way of boosting economic and social well-being. The degree of efficiency, however, greatly depends on how such investments are made. The EU has already provided substantial support to HRD reform in each of the candidate and potential candidate countries through the Phare, CARDS and Tempus programmes, in the framework of which the ETF has provided technical assistance and support. The following are some of the key lessons learned from this experience:

- HRD reforms in the partner countries must be systemic in nature and must cover general, vocational and higher education as part of a comprehensive lifelong learning strategy. They are closely related to radical changes in labour markets and cannot be viewed in isolation from them. However, the difficulties of administrative coordination and the countries' limited institutional capacity to define and implement reform are major constraints.
- Successful HRD reform requires clear long-term policy objectives, an integrated approach and adequate resources. It should combine top-down policy development, pilot projects to introduce and test innovations, and bottom-up measures ensuring active participation by stakeholders. However,

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<sup>2</sup> See A. de la Fuente and A. Ciccone, 'Human capital and productivity Investing efficiently in education and training', Report to DG Employment 2002; Commission Communication (2003/779); G. Psacharopoulos and H.A. Patrinos, 'Returns to investment in education: A further update', World Bank (mimeo), 2002.



few pre-accession countries currently have such policies, and reforms so far have often been fragmented, underresourced and unsustainable.

- EU assistance to the former candidate countries (now new Member States) played an important role in their national reforms in education and training. A crucial element was the gradual incorporation into the assistance of the evolving European policy on employment and education. This was particularly important when EU support shifted from technical assistance to preparation for accession, and even more so after the Barcelona council in 2002, which highlighted the Lisbon strategy as 'an incentive for the candidate countries to adopt and implement key economic, social and environmental objectives and as a two-way learning process'.<sup>3</sup> However, it is questionable whether the Phare Programme provided sufficient funding to meet the vocational education and training (VET) priorities defined by the candidate countries or, later on, those set in the context of the accession partnerships. Overall, the best results were obtained in those countries which already had clear reform strategies, where political changes hardly affected implementation, and where Phare, Leonardo da Vinci and the ETF (as well as other international donor instruments) were effectively used as priority instruments to implement the reforms<sup>4</sup>.

## **4. Challenges to HRD systems in the current pre-accession countries**

The EU's structural indicators, quantitative targets and benchmarks on employment, education and training can be used to give an idea of the particular situation of the current pre-accession countries compared to EU Member States in these fields. The ETF has analysed these trends in detail in a number of reports.

### **4.1 Employment**

The indicators show that employment rates in the pre-accession countries are far below those obtained in the EU 25 and even further below the EU targets for 2010 (see Annex 1). The gap is very wide in Turkey and the Western Balkans, particularly as regards the employment of women and older workers. In Turkey and Albania, employment is still very high in agriculture and limited in the services sector. Unemployment, particularly among young people, is extremely high in the Western Balkans

In the candidate countries, economic restructuring is ongoing but the fragile development of small and medium-sized enterprises (SMEs) does not offer enough jobs to absorb the redundancies from industry. Workers' geographical and professional mobility is very low. The education systems are struggling to provide people with the qualifications needed for economic modernisation and development. The lack of resources for active labour market measures, combined with businesses' low interest in training, are holding back productivity, hampering competitiveness and deepening social exclusion and disparities between regions, sectors, age groups, sexes and other categories.

The situation is even more difficult in the potential candidate countries, where the economies are still recovering and growth is still very slow after the very severe damages caused by conflict in the Former Yugoslavia and its aftermath. The restructuring of industry and agriculture is only just beginning, while the development of services and job creation in general is very limited and the labour market is very depressed, with unemployment rates reaching 30–40% and the informal economy accounting for more than 30% of employment. The existing skills available are unsuitable or inadequate to meet national objectives for economic development.

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<sup>3</sup> Presidency Conclusions, Barcelona European Council, 15 and 16 March 2002, SN 100/02.

<sup>4</sup> For detailed analysis, see ETF, 'Thirteen years of cooperation and reforms in vocational education and training in the acceding and candidate countries', 2003.

## 4.2 Education, training and HRD

The gap between EU benchmarks and reality on the ground is also very wide when looking at education-related indicators such as early school leaving rates, percentages of pupils with low reading literacy and the participation of adults in lifelong learning (see Annex 2). An exception is Croatia, which shows good results, better than the EU average rate for early school leavers and youth educational attainment. However, public expenditure on education across the region is worryingly far below the EU average of 5.1% of GDP (2.7% in Albania and 3.7% in Turkey).

The preparation of lifelong learning strategies is at a very early stage. Vocational education has not received the appropriate priority and the introduction of new updated curricula is taking a very long time. Adult learning, particularly work-based learning and labour market training, is severely underdeveloped.

HRD systems in the candidate countries still suffer from a number of structural problems. Administrative coordination at national level and between the different layers is difficult and the involvement of social partners is weak. HRD systems face many challenges: a lack of transparency; the poor quality of many training providers and the lack of quality assurance systems; the limited development of lifelong career and guidance systems; the poor quality of teachers and trainers; and the scant recognition given to non-formal and informal learning.

Again, the situation is even more problematic in the potential candidate countries, where the process of reforming education and training started only very recently. The countries are still suffering from highly centralised systems of governance, obsolete infrastructure and narrow specialisations. There is little if any partnership between schools and social partners; teachers have low socioeconomic status; their skills, and the curricula they teach, are outdated; and reliable data is in very short supply.

## 5. How can HRD support the objectives of the pre-accession strategy?

Investment in HRD can significantly support the objectives of the pre-accession strategy by taking full account of the *acquis communautaire* in employment, education and training alongside the IPA. The following sections examine this potential contribution in more detail.

### 5.1 The *acquis communautaire* in employment, education and training in the pre-accession countries

The *acquis communautaire* in HRD has now developed largely in the context of the European Employment Strategy (EES) and the European Education and Training 2010 process. It concerns in particular the European Social Fund (ESF), preparation for which is covered by the fourth component of the IPA proposal and will concern the candidate countries, and the new integrated Lifelong Learning programmes, already considered by the IPA proposal as part of the Community programmes for all countries. More generally, as already demonstrated in the cases of Phare and CARDS, the first component of the proposal, institution building, can contribute to the adoption and implementation of the *acquis* in the candidate countries and to progressive alignment with the *acquis* in the potential candidate countries.

Since the Luxembourg Council, preparation for the ESF has involved candidate countries and, since Lisbon (2000), EU programmes such as Leonardo da Vinci, Socrates and Youth for Europe have been made accessible to them. The new candidate countries have begun to prepare for the implementation of the European Employment Strategy by means of the Joint Assessment Paper for Employment Policy (JAP). Also, since Barcelona candidate countries have been fully associated with the development of EU policies in education including, in particular, participation in the Copenhagen/Maastricht and Bologna processes. In the framework of Phare and CARDS, these developments have begun to benefit HRD-related reform processes in the candidate countries. Turkey and Croatia embarked on this process only recently, but they are expected to follow the same path as Romania and Bulgaria have been doing since 1998.

The potential candidate countries in the Western Balkans have longer-term political perspectives. However, membership of the EU is their aim and they have already grasped the contribution EU developments can make to their reform processes. On the occasion of the 7th Conference of European Ministers of Education (Nicosia, 2003), they demonstrated their commitment to a concrete action plan which identified priority areas for educational development and reform, and agreed on the need to strengthen regional cooperation and follow European policy developments closely. The 8th Conference of European Ministers (Oslo, 2004) provided a fresh opportunity for a joint statement: this set out a number of recommendations addressed to the countries as regards the development of lifelong learning strategies and more and better investment in human capital.

Many of the countries have already signed the Bologna declaration of 1999 on the European space for higher education. They are actively involved in the Tempus programme and participation in the new Integrated Lifelong Learning Programme 2007–13 will be open to them.

The ETF is implementing a project disseminating the key messages of the Copenhagen/Maastricht process in each of the potential candidate countries (see below).

## **5.2 The European Employment Strategy**

The ETF has undertaken in-depth reviews of the candidate and potential candidate countries' labour markets, using the central concepts of the EES. In the Strategy, the development of human capital and lifelong learning is one of the key priorities for contributing to the three objectives of full employment, better quality and productivity at work, and stronger social cohesion and inclusion. The European Social Fund is an important lever to support Member States' employment policies and align them with the EES. The 2002 evaluation of the first five years of the EES showed that the Strategy had had an influence on national policies, including labour market reforms and adaptation of the education and training systems in line with common EU objectives and policy approaches.

Pre-accession countries will be able to advance their national economic priorities along these lines, including industrial and agricultural restructuring, SME development and rural and regional development. Increasing employability, productivity and competitiveness will enable them to develop industrial and commercial exchanges with the EU and prepare for further integration into Europe. Such a process will also help to improve social cohesion and inclusion and the integration of ethnic minorities, reduce long-term unemployment and promote equal opportunities particularly between men and women – all important steps in their gradual preparation for inclusion in the European labour market.

## **5.3 The Education and Training 2010 work programme.**

In parallel with employment-related processes, pre-accession countries could benefit from the EU's approach to education and training, which has been developed largely on the basis of the Lisbon strategy and the open method of coordination. The Education and Training 2010 work programme now integrates a series of relevant processes: the Copenhagen/Maastricht process on vocational education and training, the Bologna process on higher education, the Lifelong Learning process emerging from the Barcelona Resolution and the Objectives process concerning whole education systems. All these would contribute substantially to the HRD reforms in the pre-accession countries.

Ever since the Barcelona council, the candidate countries have been involved in the open method of coordination, working together with the EU countries to identify common challenges, disseminate best practices, achieve greater cooperation and convergence, agree on benchmarks and targets, and implement policies based on long-term policy objectives in a decentralised way, in full respect of national ownership and making full use of Community programmes. Although they are not yet part of this process, the potential candidate countries, too, could work together in a similar way. By networking with the candidate countries and some of the new EU Member States, they could continue learning from those countries' experience of reforms and from the ongoing development of HRD policies in the EU, and could improve the performance of their systems by using the EU indicators for education and training and particularly the EU education benchmarks and employment targets.

The **Copenhagen/Maastricht process** already enables the candidate countries to make full use of a range of instruments, principles and references which have been developed for reforming education and training systems. The priority areas already worked out during the process -- including transparency,

guidance in lifelong learning, quality assurance, and recognition and validation of non-formal and informal learning -- are crucial subjects for policy development of systemic value, as are the new priorities given in the Maastricht Communiqué: the development of a European qualifications framework, the development and implementation of the European credit transfer system for VET, an examination of the learning needs and changing role of vocational teachers and trainers, and the improvement of VET statistics. In addition, the Maastricht Communiqué calls for national-level implementation of the common instruments, references and principles already developed.

In the context of the European Reform Initiative of South Eastern Europe (ERISEE) and with the support of the Task Force Education and Youth of the Stability Pact for South Eastern Europe, the ETF is already implementing a project disseminating these main messages from the Copenhagen/Maastricht process in the potential candidate countries. Beyond this small-scale project, full consideration of these systemic approaches would help to continue the systemic reforms of the education and training systems in the following ways:

- Developing a lifelong guidance system would address the low quality and effectiveness of counselling and guidance systems and allow for integration between systems developed in education and the labour offices;
- Introducing quality assurance approaches based upon the Common Quality Assurance Framework for VET would be crucial when working on certification issues and addressing the poor quality of some continuing vocational training (CVT) providers;
- Promoting transparency on the basis of the Europass instruments would support professional and geographical mobility and more specifically, implementing the certificate supplement would require identifying and listing existing vocational certificates and preparing for further work setting up national qualification systems and modernising curricula;
- Setting up appropriate systems for the recognition and validation of non-formal and informal learning would contribute considerably to the development of training at the work-place, professional mobility and also a return to education for less qualified people.

Teacher training, best use of resources, key competences, improving reading literacy, increasing the number of graduates in mathematics, science and technology, and introducing ICT in education and training are among the themes identified by the **objectives process** as being of substantial interest to the improvement and adaptation of HRD systems. Work is currently progressing through clusters of countries and peer learning exercises already open to the candidate countries. The results will be also of great importance for the potential candidate countries as they will support their existing reforms and open the way for consideration of other urgent reforms.

Another set of valuable tools is the six 'building blocks' set out in the **EC Communication on lifelong learning**. These are :

- building partnerships;
- creating a learning culture;
- striving for excellence;
- insight into the demand for learning;
- facilitating access to learning opportunities;
- adequate resourcing;

and they are accompanied by six priorities for action:

- valuing learning;
- information;
- guidance and counselling;

- investing time and money in learning;
- bringing together learners and learning opportunities;
- basic skills;
- innovative pedagogies.

Both EU Member States and candidate countries are already required to consider all these elements seriously when drafting their lifelong learning strategies for the next Joint Report on Progress towards Lisbon Objectives. The potential candidate countries would also benefit greatly from these approaches. It would be particularly helpful to set up strong partnerships especially with social partners prior to the drafting of strategies, to assess and address the resource needs of any component of the lifelong learning system, to address the lack of motivation for training in some categories, to consider learning as a continuum and to create in initial education better conditions and capacity to meet needs for adult learning.

The **Framework of actions for the lifelong development of qualifications and competencies**, set up in 2002 by the EU social partners, also provides a substantial contribution to EU education and training policy. It focuses on four priority actions:

- to identify and anticipate qualification needs;
- to recognise and validate competences and qualifications;
- to inform, support and provide guidance;
- to mobilise resources.

The best practices presented in the annual follow-up reports of this instrument are of considerable interest for all pre-accession countries, particularly when identifying incentives aimed at increasing businesses' investment in human capital and providing more private resources for education and training. Wide dissemination of these reports would help to mobilise the social partners and would highlight the importance of their role in the preparation of adequate strategies.

## 5.4 Recommendations

Taking into account the situation of HRD in the current pre-accession countries, the ETF recommends the following for each country:

- Design a comprehensive and integrated **lifelong learning strategy**, with long-term policy objectives, based on the building blocks and priority actions identified in the EC Communication on lifelong learning and drawing on the best practices highlighted in the follow-up reports of the social partners' Framework of actions.
- Include this strategy as a key component of an **employment action plan** based on the main points of the European Employment Strategy.
- Draw particular attention to the need to **work in close partnership** with the main stakeholders and in particular with the social partners, and to **increase investment in HRD** by devoting adequate resources to the different components of the strategy. Particular attention should be given to adult learning, including training at the workplace and labour market training.
- Continue the **systemic reforms of education and training systems** aimed at contributing substantially to HRD by making good use of the instruments, principles and references developed by the EU. These include developing a **lifelong guidance system**, introducing **quality assurance**, promoting **transparency** and setting up appropriate systems for the **recognition and validation of non-formal and informal learning**.

- Improve the **performance of the systems** according to the EU indicators designed for monitoring the Education and Training 2010 programme, with particular attention to the **EU education benchmarks and employment targets**.
- Continue **learning from the experience** acquired by the new EU Member States and from their reform processes, and from the ongoing development of HRD policies in the EU, using **networking** as appropriate.
- Make full use of the **IPA as the main instrument** to support these policies and the **ETF as the most appropriate agency** to support pre-accession countries in making the best use of the IPA.

Finally, in the light of its experience with the Phare Programme, the ETF recommends that an appropriate allocation and an efficient use of the proportion of IPA resources devoted to HRD should be ensured.

# ALBANIA



## Country profile

**Capital:** Tirane

**Population:** 3.2 million

**GNI per capita PPP (2004):** 5,070 int'l \$

**Labour force participation rate:** M 85.3%, F 65.7%

**Years of compulsory education:** 8

**Enrolment in upper secondary:** 132,976

**Enrolment in technical/vocational programmes:** 20,032

**Vocational training as a percent of enrolment in upper secondary:** 15%

## Summary

Albania has made a great deal of progress towards accession to the European Union but many further improvements are still necessary. Around one million Albanians have emigrated since the beginning of the transition period. Albania still lacks the necessary vocational education and training (VET) infrastructure and further systematic reforms should be implemented in order to establish a modern, demand-driven VET system. VET reforms are ongoing, but mostly donor-driven. At the moment, VET in Albania is fragmented, with a huge difference in access and quality of delivery across the country. The high degree of specialisation of vocational training has become outdated with respect to labour market needs. Albania still does not have a coherent employment policy. Given the central place of migration in the Albanian labour market, future employment policy documents should give specific attention to considering how Albania could make better use of the skills and experience of its migrants in promoting economic growth and employment.

Therefore the country should be helped in dealing with the following challenges:

- The creation of a sustainable economic growth that can lead to job creation. This will require an integrated approach of economic development, employment and education through effective inter-ministerial cooperation and a stronger involvement of social partners and civil society.
- Enhancing the education and skills of the population through better education and training opportunities for young people and adults. This will involve improving the national education system focussing on regional disparities (rural – urban), gender issues, infrastructure (improvement of educational hardware), counselling and guidance. It will also mean improving the quality of the education system in order to attract more young people to education and training.
- Supporting to the most vulnerable groups in society (the long-term unemployed, young people, disabled people, etc). The national education strategy should cover the design, implementation and evaluation of active labour market measures specifically targeted at those most in need.

## Suggested priorities for action and EU support

In the perspective of achieving the objectives of full employment, quality and productivity at work, social cohesion and social inclusion we recommend the adoption of EU Social Fund-type projects aimed at:

- Supporting efforts to expand and improve investment in human capital, in particular by improving education and training systems;

- Action aimed at developing institutional capacity and the efficiency of public administration, at national, regional and local levels. Special attention should be paid to the improved capacity of the National Employment Service (NES);
- Reinforcing the partnerships between the different partners to prepare, implement and monitor the strategy, and programme the interventions supported by the projects;
- Supporting public institutions to target expenditure by coordinating donors and concentrating the scarce resources on the main priorities. The Sector Wide Approach should be encouraged;
- Encouraging social partners to actively participate in capacity building actions and undertake joint activities in the policy areas where they play a decisive role (e.g. lifelong learning, modernisation of work organisation and tackling the consequences of restructuring);
- Adopting governmental measures for the most vulnerable groups of society (such as long-term unemployed people, young people, disabled people, etc);
- Adopting governmental measures to increase women's participation in the labour market and ensure equal opportunities as part of a mainstreaming approach.

In order to address the first challenge, there is need to enhance the capacity of the institutional setting of the country to implement the National Economic Development, Education and Employment Strategies. This includes:

- The operationalisation of strategic decisions with respect to governance as formulated in the strategies and in particular the expressed political will for decentralisation. The clear sharing of responsibilities between the different actors is essential;
- Adoption of a strategy aimed at reducing the area of informality in the economy and employment;
- Adoption of appropriate strategies for addressing the regional mismatch in employment;
- The budget and level of activity on ALMMs should be improved;
- The strengthening of the capacity of the social partners<sup>5</sup>.

Concerning economic growth, it is necessary to support of the adaptability and competitiveness of enterprises and support businesses and enterprises by implementing the European Charter for Small Enterprises.

In the field of vocational education and training, there is a need to:

- a) Strengthen the capacity of already established institutions, namely the National Council for VET and the National VET Agency, so as to enable them to undertake their duties successfully;
- b) Ensure the compatibility of vocational curricula at secondary level with the curricula to be developed in general secondary education so as to increase the flexibility of the education system through possibilities for horizontal and vertical mobility;
- c) Coordinate developments in initial and continuing VET so as to pool resources and permit cross-fertilisation. This can be done by sharing training infrastructure for practical training (better use can be made of the training centres of the Ministry of Labour for this purpose); exchanging curricula and teaching and learning materials etc. The work on the occupational standards already launched through piloting activities in VET can be a first step towards a closer link between initial and continuing training but this will eventually be ensured through the development of a National Qualification system;

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<sup>5</sup> CARDS VET II will start working on this issue



- d) Strengthen the capacity of vocational schools to deliver better quality services through the implementation of modernised curricula. Teacher training and investment in infrastructure (for both school rehabilitation and equipment) are essential in this respect;
- e) Transfer the best results of many pilot donor-driven initiatives, that characterise the education system, to the systemic level and adopt a country-driven approach, for example through a Sector Wide approach;
- f) Empower the newly established VET Agency, in the perspective of becoming involved in the lifelong learning programme, so that it can deal with EU funded projects under the programme;
- g) Extend the offer of postsecondary VET programmes in order to meet the increased demands of higher education;
- h) Strengthen the pre-service and in-service vocational teacher training system.



# BOSNIA AND HERZEGOVINA



## Country profile

**Capital:** Sarajevo

**Population (2003):** 4.1 million

**GNI per capita PPP (2004):** 7,226 int'l \$

**Labour force participation rate:** M 77.8%, F 49.1%

**Years of compulsory education:** 8

**Enrolment in upper secondary:** 132,976

**Enrolment in technical/vocational programmes:** 20,032

**Vocational training as a percent of enrolment in upper secondary:** 15%

## Summary

As a result of the breakdown of Yugoslavia, the war and economic reforms, the old economic structure and patterns of employment in Bosnia and Herzegovina have been challenged to their foundations. Positive progress has been made by Bosnia and Herzegovina in macroeconomic stabilisation and structural reforms, but the labour market is still challenged by a low rate of job creation, the need to attract more people into the formal labour market and to improve the quality of the supply side. There is clear recognition of the importance of employment in the wider economic and development strategy, but there is no overarching employment strategy or policy at state or entity level with clear aims and objectives to help steer the priorities of the labour market institutions. Facilitating human capital formation requires: (i) improving the institutional setting, (ii) increasing the adaptability of enterprises, (iii) attracting more people to enter and remain in the labour market (making work a real option for all), (iv) investing more and more effectively in human capital, (v) developing state-level institutions to enforce approved legislation and strategy for educational reform and (vi) Developing inclusive strategies in education and employment services.

The EU and other donors have been investing in VET reform and other HRD-related fields for more than 10 years, with significant coordination efforts and comprehensive and well-planned and executed projects, with a key focus on creating ownership, trust and reliability on technical solutions to existing problems on the learning supply side. The bottom-up approach in the coming years should culminate with changes at system level, improvement of decision-making mechanisms and further integration into the European education and training space.

For the next period 2007-2013 the main challenges are: (i) to improve the governance of the human resources development system by strengthening the state-level institutions in charge of developing strategy policy and framework legislation, quality assurance and equal access to quality education, training and employment for any citizen of Bosnia and Herzegovina, (ii) to integrate HRD strategies and policies with economic strategies aimed at promoting growth and competitiveness, both at educational and at employment levels and in a lifelong learning perspective, and (iii) to consolidate the results gained in the different VET reform projects and other HRD-related projects (employment, SMEs, regional development), to extend them from pilot projects to the system level, and to continue reform efforts in line with main European developments, and notably the Education and Training 2010 objectives and tools.

IPA could contribute to these challenges by: (a) decisive support to state-level institutions in the field of education and training and employment through policy advice, capacity building and direct budget support to the education and employment agencies, (b) a sector-wide approach programme supporting a sustained strategy for growth and competitiveness that integrates human resources development

within a socio-economic development strategy and (c) mechanisms facilitating full participation in the European education and research area.

## **Suggested priorities for action and EU support**

1. The first challenge requires decisive support to state-level institutions in the field of education and training and employment through policy advice, capacity building and direct budget support to the education agency and the employment agency in order to enable them to:
  - Develop and implement (in close cooperation with decentralised levels) HRD strategies contributing to sustainable growth and competitiveness, improved welfare levels and consolidation of the State, in the framework of the Stabilisation and Association Process.
  - Develop and maintain a National Qualification Framework reflecting the correspondence and relationship of the qualifications obtained through the different types of learning and institutions, in close co-operation with social partners, main stakeholders and decentralised levels of education and training.
  - Develop quality assurance mechanisms, state framework legislation and enforcing capacity to ensure equal access to quality education to any citizen, in such a way that it generates trust in the system of states participating in the European education space.
2. Contribution of HRD to socioeconomic development strategy could be encouraged through the integration of this component into a sector-wide approach programme supporting a sustained strategy for growth and competitiveness, including among other macroeconomic and infrastructure measures:
  - Development of an employment strategy in line with the recommendations from the Integrated Guidelines for Growth and Jobs.
  - Integration of learning centres into regional and SMEs development programmes, by adopting open learning approaches which provide learner-driven services to young and adult citizens at the request of the local economy and community as a whole, in a lifelong learning perspective..
  - Promote sectoral approaches among social partners aiming at strengthening HRD policies in companies and sectors and to develop strong links with VET and higher education institutions, including research and innovation.
3. In relation to the third challenge, the ETF proposes two types of initiative. On the one hand, state-level networking structures should be established for pursuing the objectives and requirements for full participation in the European education and research area. The development of a VET department inside the education agency would be essential as a supporting structure for the mainstreaming of the pilot reforms and the sustainability of the results of the EU investments. On the other, measures should be taken to encourage the maximum and most effective participation in all EU programmes and projects open to Bosnia and Herzegovinian citizens and institutions, by identifying needs, articulating priorities and increasing interest among potential actors.
  - Specific issues for further development of higher education include: (i) systemic issues (legislation, governance, finance to support academic freedom and institutional diversification; (ii) quality assurance and accreditation systems introducing a shift in emphasis from inputs to outputs, by concentrating on learning outcomes and research results; (iii) co-operation with industry and development of lifelong learning strategies; (iv) introducing the ECTS for credit transfer and accumulation more widely; (v) support for cooperation between institutions, mobility of students, joint teaching programmes and practical training, (vi) readable and comparable degrees through full use of the diploma supplement application of the provisions

for the recognition of qualifications concerning higher education in the European region and (vii) Further changes in the implemented two-tier system of academic qualifications.

- A task force relating to HRD should be build on the basis of different existing initiatives, with responsibility for (i) overseeing the performance, and comparing this with the situation in the EU, on the benchmarks and indicators established by the Copenhagen Process, a statistical framework for measuring progress towards the 2010 Education and Training Programme objectives; (ii) carrying out a similar role for the learning practice and indicators relating to the European area of lifelong learning; and (iii) proposing to policymakers actions and measures to improve performance on indicators that show significant divergence from established benchmarks.
- Based on preliminary steps, promoting participation in EU programmes: a coordinated network of offices (at state and regional levels) should be created, with responsibility for identifying needs, articulating priorities, disseminating project opportunities, identifying actors and helping in the establishment of trans-European partnerships, giving technical assistance in project preparation, supporting relevant actors, and monitoring and evaluating projects.
- Promote tolerance and sensibility for all ethnic groups at all levels of society through the regular education system, seminars for public office holders and employees; design and implement measures for better social inclusion of Roma and enhancement of their employability.



# CROATIA



## Country profile

**Capital:** Zagreb

**Population:** 4.4 million

**GNI per capita PPP (2004):** 11,917 int'l \$

**Labour force participation rate:** M 75.4%, F 60.2%

**Years of compulsory education:** 8

**Enrolment in upper secondary:** 196,147

**Enrolment in technical/vocational programmes:** 145,510

**Vocational training as a percent of enrolment in upper secondary:** 74%

## Summary

The Croatian economy is already well integrated with that of the EU. Croatia is a member of the World Trade Organisation. Croatia is also expected to play a leading role in enhanced regional economic cooperation and stability in the context of an enlarged Central European Free Trade Agreement (CEFTA)<sup>6</sup>. In March 2006, the IMF review of the stand-by arrangement with Croatia concluded positively that the country had made significant progress in implementing the measures provided for under the arrangement.

The main challenges in the forthcoming period (2007-2013) will be to: a) create sustainable jobs and to reduce unemployment; b) to foster regional development and local human potential; and, c) to establish a nationally coherent HRD policy, that also increases the efficiency and quality of the education system.

In order to meet these challenges in line with the objectives and targets of the Lisbon strategy, a substantial increase in public and private financial resources is required, in particular for active labour market measures, measures for disadvantaged regions/groups and for certain segments of the education and training system, such as adult learning and VET.

Croatia has achieved macroeconomic stability with low inflation and has already gained recognition as a functioning market economy. It has enjoyed considerable GDP growth rates during recent years with 5.6% in 2002, 3.8% in 2004 and 4.3% in 2005<sup>7</sup>, and Croatia's economy is expected to grow at an average rate of 6% over the next seven years, aiming to reach 75% of the average income per capita in the EU in 2013<sup>8</sup>. In economic terms, it is already now more advanced than the two EU candidate countries of Romania and Bulgaria. In 2004, Croatian GDP per capita in Euro at purchasing power parity amounted to 46% of the EU25 average, compared to Bulgaria (31%) and Romania 32%.<sup>9</sup>

According to the Economist Intelligence Unit (EIU), Croatia's stock of **foreign direct investment** per capita is US\$2,100 (2003 data), compared with Bulgaria's US\$1,007 and Romania's US\$829. As a proportion of GDP, Croatia's FDI is comparable with Bulgaria's (32.2%) and above Romania's

<sup>6</sup> CEFTA currently consists of Bulgaria, Romania, Croatia and Macedonia. Likely to join the organisation will be Serbia, Montenegro, Bosnia and Herzegovina, Albania and Moldova. The multilateral agreement is to replace more than 30 bilateral agreements on the free trade zone and the new framework envisages negotiations to be concluded by October 2006.

<sup>7</sup> Ibid, p.2. Data based on Croatian Bureau of Statistics and Croatian National Bank sources. Economic performance improved in the first two months of 2006 compared to last year, as all key sectors experienced considerably higher growth rates (Business news, 27 March 2006).

<sup>8</sup> On 14 May 2006, the National Council for Competitiveness endorsed the "Strategic Framework for Croatia's Development 2006-2013", a government document defining the main directions of Croatia's development between 2007-2013.

<sup>9</sup> Source: Eurostat. Data released on 20.12.2005.

(25.6%)<sup>10</sup>. Ranking 62nd among 117 countries, Croatia managed to improve its Growth Competitiveness Index compiled by the World Economic Forum in 2005, and following the start of EU membership talks, Croatia's investment risk rating improved as well.

Business optimism in Croatia has been on the rise in the first three months of 2006 and this trend could be expected to continue in 2006, according to the market research agency Hendel<sup>11</sup>.

The third implementation report on the Charter for Small Enterprises of the European Commission puts Croatia in the lead together with Serbia amongst the Western Balkan countries when it comes to improving the **entrepreneurship environment** aimed at encouraging the development of small enterprises. Also the World Bank reported some positive changes in the business environment. Actions taken to improve the business environment concern the land registration system, the strengthening of property and creditor rights, one-stop-shops for business registration and the re-establishment of the basic features of the pension system<sup>12</sup> (change of the pension indexation formula), as well as the initiation of the health sector reform. The World Economic Forum sees bureaucracy, corruption and workforce skills as impeding factors, while the EIU holds that the country has a relatively well-educated labour force, rapidly improving road transport and telecommunications infrastructure and a well-developed banking sector.

As regards the knowledge economy and capacity to effectively invest in innovations, the World Bank ranked Croatia ninth with 6.22 points, ahead of Bulgaria and Romania (placed 10<sup>th</sup> and 12<sup>th</sup>) and other South-Eastern European countries<sup>13</sup>. A study released by Cisco Systems Croatia in March 2006 revealed that Croatia will lack more than 5,000 IT experts in 2008. The average shortage rate on the Croatian market of IT experts was 16% in 2005 and is forecast to grow to 25% by 2008<sup>14</sup>.

Looking ahead to the accession talks, there are unlikely to be many major obstacles. The country is some way short of EU standards on environmental protection, but the countries that joined the EU in May 2004 were similarly ill prepared. The agricultural sector also needs modernisation, but the demands there are rather different than for shipbuilding, given the coddled nature of the farm sector throughout the EU.

Croatia's biggest problem is likely to be the slow progress made on privatisation to date and the lack of will to accelerate such sales, as well as the high level of state aid in the economy. According to figures released by the Agency for the Protection of Market Competition, state support accounted for 3.2% of Croatia's GDP in 2003, compared with 0.4% in the EU. Much of this aid is directed to the shipbuilding industry, which has some powerful political backers. Here, Croatia will be forced to react, just as Poland and the Czech Republic were with their inefficient coal and steel sectors. A government plan on the restructuring and privatisation of shipyards is being prepared by mid 2006, while privatisation of the remaining state banks and restructuring of Croatian Railways is currently under discussion.

Strategic branches of the economy include tourism, shipbuilding, transport, agriculture and the wood-processing industry.

The grey economy makes up an estimated 10-15% of GDP, according to the National Statistical Office. Some economic areas are still characterised by protectionism (e.g. the Chamber's campaign "Buy Croatian products", recent opposition against import of agricultural and food products, or in the area of real estate and free movement of capital/banking sector). New business start-ups seem to be less export oriented (three quarters of new entrepreneurs between 2002-2005 did not have any customers outside Croatia)<sup>15</sup>.

In 2005 the Croatian Employment Service, with EU assistance, was ready to move in and support redundant workers in companies undergoing restructuring with active labour market measures (creation of so-called Mobility Centres on the premises of up to 10 companies). However, as restructuring and

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<sup>10</sup> Economist Intelligence Unit: Country briefing – Croatia on Views-Wire Eastern Europe, 2005.

<sup>11</sup> The business optimism index (HLIPO) rose by 4.1 points to 112.6 in March 2006; this index is measured by the market research agency Hendel and the Croatian business weekly "Lider".

<sup>12</sup> World Bank: Country Assistance Strategy for Croatia 2005-2008, Zagreb, 2005.

<sup>13</sup> The World Bank has designed knowledge economy indicators to assist the countries in defining the necessary reforms for increased government investment in innovation.

<sup>14</sup> Study by IDC consulting agency, commissioned and presented by Cisco Systems Croatia in March 2006.

<sup>15</sup> Brief news bulletin in English, 18 May 2006, HINA, Zagreb.



rightsizing never really got off the ground, the Croatian authorities were able to use only one quarter of the respective Labour Market Fund and remaining funds had to be returned to the EC Delegation.

Latent or open subsidies of the Government may, of course, lead to distortions in the allocation of resources. This, together with the enormous amounts the State had to invest in the reconstruction of war-devastated areas<sup>16</sup>, have been impediments to investing more funds in fields such as education, research and technology. Delaying the necessary structural changes slows down the creation of new jobs. The Government has recognised this, agreeing with the World Bank on a medium-term plan with a target of reducing subsidies to 2.2% in 2007<sup>17</sup>.

## **The challenges and recommendations for HRD and labour market related reform/modernisation processes underpinning IPA objectives**

There are three main challenges for HRD reform in the forthcoming period.

### **Challenge 1:**

*To better use (avoid wasting) human capital and potential by transposing the expected economic growth into employment growth and reduce unemployment, thus fostering social and economic cohesion. At the same time, to successfully further develop and adapt Croatian labour market policy, regulations to European standards and to modernise and make labour market institutions more efficient.*

Croatia, like most transition countries, lacks job opportunities. Employment can be spurred only by policies that enable enterprise restructuring and improve the investment climate. To facilitate the creation of more and better jobs, the most important challenges are to make it easier to start businesses, plan for expansion, create better quality jobs in formal sector and ensure their progress.

According to the World Bank<sup>18</sup>, Croatia should continue to cut the cost of doing business, improve the investment climate and ease labour market regulations. In addition, the World Bank urged Croatia to lower taxes on labour, reform the pension and social security systems, strengthen contract reinforcement and increase incentives for employment in less developed regions. Flexibility in the formal labour market may be increased further with the aim of higher employment and lower informality, but it needs to be counter-balanced by social security measures to ensure basic income security, particularly for those most vulnerable groups in society considering limited resources available. The *flexi-curity* approach focusing on lifelong learning and an activation strategy can be kept as a long-term objective, but it is very important to define who the most vulnerable groups are in the Croatian context. The issue of the informal economy also needs to be addressed by introducing measures stimulating the transition from informal to formal jobs as this considerable segment of the labour market is outside the scope of any legal measures of the *flexi-curity* approach, with a potential negative impact on efficient labour allocation and labour productivity.

It is important to take a gender-sensitive approach to all efforts and everyday activities. In this context, Croatia needs to continue promoting gender equality in the areas of education, labour, prevention of violence against women and a stronger participation in public and political life.

The Government should also develop and enforce inclusive legislation that would ensure the full integration into society of children with various development disabilities. The MoSES is asked to secure funding and support for disabled children to be given access to regular education throughout the country. Furthermore, efforts should continue to improve the position of disabled people on the labour market.

All this requires the development of a more integrated approach to employment and economic policy, in line with the multi-annual EU Integrated Guidelines for Growth and Jobs. In addition, accelerated harmonisation with EU labour legislation and capacity building for the Ministry of Economy, Labour and Entrepreneurship (MoELE) and its labour market institutions (national and local employment agencies)

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<sup>16</sup> Between 1995 and 2005 Croatia spent some 25 billion kunas on the reconstruction of houses in previously war-struck areas - so-called "areas of special state concern". The EU (and other donors) complemented national efforts by investing considerable amounts in the renovation of social and communal infrastructure, the integral development of the local community and social and economic revival programmes.

<sup>17</sup> World Bank: Country Assistance Strategy for Croatia 2005-2008, Zagreb, 2005.

<sup>18</sup> World Bank: *Enhancing job opportunities in Eastern Europe and the former Soviet Union*, Washington, 2005.

is crucial and a precondition in order to enhance absorption capacity of all related measures and quality of human resources.

More specifically,

- Capacity building to the MoELE and PES to develop and implement the National Reform Programmes and Integrated Annual Employment Action Plans (Twinning and technical assistance).
- Development programmes for PES staff in order to increase PES capacity in servicing the unemployed and effectiveness and quality of services.

In terms of active and passive labour market policies and integrating social assistance with employment, Croatia already has many of the features of an effective policy framework. The strengthening of 'activation' and its integration with the administration of unemployment benefit, job mediation and active labour market measures, is the right direction and is in line with European Employment Strategy and the *flexi-curity* approach but needs time to become fully effective. However, the basic system that applies to everyone joining the unemployed register needs to be adjusted and strengthened to address the problems of the long-term unemployed. This needs to be done through:

- Intensifying 'activation' for people who are out of work for more than six months, including the introduction of compulsory job search workshops for those who remain unemployed after 12 months;
- Developing new measures to combat employers' negative perceptions of the long-term unemployed;
- Focusing ALMMs more on improving the basic skills of the long-term unemployed;
- Introducing a major new programme (workfare) for long-term unemployed recipients of welfare so that they can gain work experience and be reconnected with the world of work<sup>19</sup>.

Sometimes the impression is created that if only more funds became available for such measures, unemployment could be eradicated in no time<sup>20</sup>. We would regard it as much more appropriate for a transition country like Croatia to invest in ALMM quality rather than in quantity considering the limited resources available. Quality in this context means better targeting and prioritising certain vulnerable groups through:

- a coherent policy framework with clearly defined components that are mutually reinforcing and aim at reducing the flow of people into long-term unemployment and at helping those who are already long-term unemployed;
- additional and new measures on the long-term unemployed or those most at risk of entering long-term unemployment and helping them through individualised counselling to make the choices most appropriate to their needs;
- identifying those unemployed with basic skill deficiencies and assessing the current level of skill and the type of further training which would be most beneficial;
- having a portfolio of diverse opportunities and support arrangements for people with different personal circumstances through partnerships with other agencies and NGOs.

The CES should be confirmed as the main agent and policy instrument for the organisation and delivery of measures directed towards reducing long-term unemployment. It should be given clear objectives in relation to the long-term unemployed, adequate resources to meet them and distinct organisational and operational arrangements for the activation agenda. The source of funding for ALMPs should be made more secure. This will probably require that it be separated from that for unemployment benefit and be

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<sup>19</sup> See Philipps, R. & Bejakovic, P.: *Draft final report by the Labour and Employment Team on the Social Assistance Project for the Croatian Ministry of Labour and Social Welfare*, Zagreb, March 2003.

<sup>20</sup> Neubauer, R.: *More Active Labour Market Measures – Panacea or Folly*, Paper presented on the International Conference *Employment in South-East-Europe as Factor of Stability and Development*, 28.–30. November 2002, Sofia - Bulgaria: Friedrich Ebert Stiftung.

directly funded from the Ministry of Finance. Also arrangements should be introduced to strengthen joint working between the CES and Centres of Social Welfare, beginning with planning opportunities for the long-term unemployed and sharing information about common clients.

### **Challenge 2:**

*To reverse the trend of wide regional disparities between the capital of Croatia and the country, the major cities and rural areas, thus providing better employment and education/training opportunities to disadvantaged regions and groups and to reduce educational gaps.*

Rural and regional development policy needs to pay more attention to HRD and education/training dimensions, and to develop integrated measures that contribute to socio-economic revitalisation (particularly true for post-war areas).

Policy advice and technical assistance on good practice from EU Member States in improving the entrepreneurship environment aimed at encouraging the development of small and medium enterprises at regional and local level, needs to integrate HRD measures and plans.

As it remains extremely difficult for relatively depressed areas to fund increasing educational expenditure after the initial decentralisation settlement, some kind of continuing settlement fund will remain necessary to maintain consistent national educational standards throughout Croatia. On top of this, less developed regions - and the people living in those regions - would require additional funding over and above the funds provided through the existing universal financial standard and the Equalisation Fund. This is to allow these counties to catch up and close existing development gaps with the ultimate aim, in the long term, of doing away with, the two or three-class education system which has *de facto* taken shape in Croatia and of helping reduce social exclusion.

More specifically, in the area of education and training, measures could range from upgrading physical and human resources, as well as fostering innovative practices (e.g. Innovation Fund). Incentives for teachers in rural areas might be one potential policy measure in order to enhance the quality of the education system.

Increased support to less attractive and disadvantaged regions would not only reduce regional disparities but also diminish the pressure on the two macro-regional centres (Zagreb and Split).

Additional measures need to be developed in order to contribute to socio-economic revitalization and reduction of unemployment in the post-war areas, which will enhance a sustainable return of Serb refugees and other minorities to war devastated areas.

### **Challenge 3:**

*To break up the compartmentalisation of educational (sub)-systems as well as the dichotomy of education institutions and the world of work by developing and implementing a comprehensive and coherent HRD/lifelong learning strategy, encompassing the formal and non-formal education systems, education and training institutions and the labour market, and to increase efficiency.*

The effective use of human resources and investment in quality improvements are the backbone of Croatia's social and economic development and its competitiveness. Increasing the number of individuals with higher-level skills, multi-skills and a mix of technical, methodological and behavioural competences and undertaking appropriate changes in the education system are prerequisites for accomplishing Croatia's strategic goals. Many characteristics of the education system influence its relevance and outcomes for society, including the simple balancing of educational profiles and employment needs, issues concerning the quality of education and the access to adult learning. Education will make the greatest contribution to the development of a knowledge-based economy and a cohesive society if it is commonly recognised as a valuable asset, if adequate investments in education are ensured by the State, companies and local government and if quality education is accessible to individuals whenever, wherever and however they need it. Therefore a coherent HRD/education strategy must be developed on the basis of the concepts of lifelong learning and the learning society and on the principle of a strategic partnership between public and private actors.

Continuous efforts are needed in Croatia to:

- Improve the overall skill levels of the working age population by increasing the share of higher education graduates, in particular the share of post-secondary VET graduates (polytechnics) and to develop further mathematical, natural and technical sciences and increase student numbers;

- Considerably expand adult learning opportunities for both employed, unemployed and inactive people by creating an appropriate support framework for continuing training/lifelong learning (e.g. better targeting of current instruments, joint funding models between employers and employment services, new incentives such as the introduction of a further education/training cheque or a Training Fund for employed people and individual adults etc.);
- Foster the development of management training in particular for SMEs (review and assessment, network of companies at regional/local level, synergies with existing training organisations);
- Support the development and implementation of a comprehensive National Qualifications Framework (NQF) – comprising all levels of education, including higher education - and to adjust education programmes to the knowledge and skills needed in the future, with a particular emphasis on the development of interdisciplinary and key competences at all levels of education (particularly the entrepreneurial way of thinking);
- Further modernise initial training (move from an input to an output oriented system, shift from a traditional model of provision to a learning organisation model, implement funding mechanisms that stimulate innovation in schools, raise the quality of VET through the introduction of quality assurance mechanisms and national standards, improve the efficiency of the VET system, modernise the apprenticeship system, promote innovative and modern professions, integrate a system of career guidance and counselling);
- Promote the establishment of effective partnership structures, involving both the education and economic/social actors in VET and lifelong learning (e.g. creation of national and regional joint Employment and VET Councils, to learn from good practice in sectoral agreements in the EU and the framework of European social partners for the lifelong development of competencies and qualifications);
- Develop and introduce a system of continuously monitored labour market signals and demands for the purpose of education (VET) planning;
- Modernise the training of teachers as the key change actors at all levels and improve their material conditions with a view to attracting and retaining highly-skilled people; in particular, the development of a modern vocational teacher training system (standardised initial and continuing teacher training for VET) and greater emphasis on school management training;
- Build capacity of the MoSES (e.g. twinning), education institutions and agencies at national and local level; in particular the VET Agency in order to become a one-stop-shop for VET issues;
- Support the occupational and social integration of risk groups (students from rural and poor families, ethnic minorities) and foster intercultural education amongst pupils from different communities (e.g. Croats and Serbs in Eastern Slavonia);
- Implement external and international evaluations and reviews (e.g. review the quality and efficiency of education institutions and networks, use resources, tracer studies of graduates etc. efficiently)<sup>21</sup>;
- Improve the status and incentives for private initiatives in education and training and foster public-private partnerships (PPP);
- Enhance the integration of Croatia in EU education and training initiatives and networks with a view to learning from good EU practices.

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<sup>21</sup> Recommendations are partly based on National Competitiveness Council: *55 Policy recommendations for raising Croatia's competitiveness*, Zagreb, 2004.

# FORMER YUGOSLAV REPUBLIC OF MACEDONIA



## Country profile

**Capital:** Skopje

**Population (2003):** 2.1 million

**GNI per capita PPP (2004):** 6,562 int'l \$

**Labour force participation rate (2003):** M 75.9%, F 57.3%

**Years of compulsory education:** 8

**Enrolment in upper secondary:** 95,950

**Enrolment in technical/vocational programmes:** 58,891

**Vocational training as a percent of enrolment in upper secondary:** 61%

## Summary

The European Commission has awarded the the former Yugoslav Republic of Macedonia candidate country status in the accession process to the European Union. Economic stabilisation has made good progress as inflation in 2005 only increased by 0.5%. The main problem remains the high level of unemployment that needs to be addressed by greater economic development and therefore increased job creation.

Accordingly, the most important challenge is the creation of a conducive environment for employment friendly economic growth. This will require an integrated approach between social and economic development, and employment and education through effective inter-ministerial cooperation, and the involvement of social partners and civil society. The second challenge is to enhance the skills of the population in line with the requirements of a market economy. The third is to support to the most vulnerable groups of society such as disabled people, minorities and women.

## Suggested priorities for action and EU support

Based upon the present country analysis and the priorities set in the European Partnership Agreement, the challenges stated in the previous chapter need to be followed up with priorities and actions for consideration in IPA programming looking at the main areas (governance, sustainable economic growth and employment, education and social cohesion).

### *The first challenge: governance issues*

- Capacity building in public administration in terms of increasing the understanding of the needs of economic actors, strengthening the implementation capacities of the government to create the appropriate bodies, also for the management of the duties linked to EU Accession, continuing the alignment with EU legislation in the fields of occupational health and safety, labour law and anti-discrimination, and strengthening the corresponding administrative structures.
- Decrease the relatively high share of unproductive expenditure while increasing funding for education, infrastructure and research and development.

- Support the implementation of the Employment Action Plan (NAPE) 2006-2008 based upon the Lisbon Agenda. Further modernisation of the Employment Service Agency and the public employment services.
- Build capacity in the Labour Inspectorate and establish a twinning project to transfer expertise from the EU.
- Ensure coordination between the new established agencies in order to reach full efficiency.
- Support the decentralisation process by reinforcing the capacity of the system at all levels, especially empowering the capacity of local authorities so that they can absorb and implement decentralisation measures some of which are already starting in 1 January 2007 (education).
- Review the institutional capacity of the social partners to engage in productive social dialogue and on that basis develop a plan for the support and improvement of social dialogue and the inclusion of social partners in the design and implementation of social policies.
- Further promote the active participation of civil society, including the social partners, in decision-making processes. Develop capacity for project preparation and management in accordance with the Structural and Cohesion Funds, both at central level and at NUTS III level.
- Donor coordination.

***The second challenge: creation of sustainable economic growth***

- Continuous reduction of the grey economy. Take steps to integrate the informal sector into the formal economy, particularly in order to fully include employed people in the social security system and to eliminate unfair competition from unregistered companies.
- Development of local social partnership on a tripartite and bipartite level.
- Support the adaptability and competitiveness of enterprises and support establishing business and enterprises, especially those that are creating and producing national brands, with continuous implementation of the European Charter for Small Enterprises. Introduce a voucher scheme for training and advisory services. Explore options for tax incentives for small company start-ups. Improve SME advocacy and representation channels.
- Raise awareness about entrepreneurship and its promotion and create a systematic approach for entrepreneurial learning as a key competence at all levels of education. Improve labour force qualifications and promote self-employment and entrepreneurship.
- Support the creation of a real labour market able to provide feedback to the education system and continue to improve labour force statistics. Further develop macroeconomic statistics and social statistics.
- Ensure swift implementation of the new law on labour relations and the reform of the employment agency to improve the capacity of the employment services to really help the unemployed. Initiate further efforts to promote job creation, in particular for women, young people and Roma.
- Increase the employment rate of the most vulnerable groups of unemployed people with priority to young people and the long-term unemployed.
- Increase labour market flexibility and promote active labour market measures by improving the quality of education and training, promote training measures, retraining and further training, support to job clubs, etc.
- Support comprehensive local development projects.

***The third challenge: better education and training opportunities for all***

- Establish the close relations between education (universities) and employers and create conditions for public-private partnerships in education.
- Improve the quality of education and training, promote training measures, retraining and further training by establishing a lifelong learning system with the identification and recognition of competences acquired through non-formal and informal learning to allow work and education mobility in the formal system. Align the quality of the education system with European standards. Modernise the curricula of secondary and university education. Step up efforts to create a modern vocational education and training system.
- Create sustainable teacher training and curricula development in the perspective of the European Qualification Framework and provide knowledge standards and a catalogue of professions. Ensure that quality curricula and syllabi based upon technological developments are adopted.
- Ensure conditions for decentralisation in education by building the capacity of school management and teachers for school based curriculum in line with local development.
- Support the creation and implementation of an education system with full vertical and horizontal mobility.
- Strengthen the capacities of local self-government and school management for the efficient use of diverse lifelong learning forms for the purposes of local development.
- Introduce a systemic approach to adult education and coordinate activities at national level, strengthening expert support to the adult education system.
- Support actions for the development of a culture of learning for all (age groups, ethnic minorities groups, vulnerable groups) and reduce drop outs with a final goal of increasing the overall education level.
- Involve the business community and local government as active participants in planning and creating vocational education school policy and training.
- Encourage the participation of civil society in the fight against social exclusion as a complement to the actions carried out by public administration and support the capacity building of NGOs working with disabled people and all vulnerable groups.
- Support the implementation of the National Roma Strategy.
- Support gender issues: (i) gender mainstreaming policy formulation (ii) establishment and capacity building of the commissions for gender equality at local level.





# KOSOVO

## Summary

Kosovo's human resource potential is significantly undermined by an overstretched and under resourced education system, with public service training provision addressing only a fraction of the jobless. While good efforts have been made to modernise policy and delivery of the employment and education services, reforms are still far from satisfactory compared to developments in neighbouring partner countries and significantly removed from the policies and standards required of EU Member States towards which Kosovo needs to evolve.

This report identifies a number of issues which the European Commission could consider as part of its assessment for IPA support in the period 2007-2013. It provides an overview of the overall labour market and human resource development in Kosovo with respect to the broader EU policy objectives of full employment, quality and productivity at work and social and territorial cohesion. It particularly considers the institutional arrangements for education and employment, identifying areas for improvement and options for EU support. The paper concludes with a number of recommendations to be considered by the European Commission for support particularly with specific reference to policies and structures which will enhance Kosovo's readiness for future EU integration.

These include: labour market policy adjustment, including a national action plan for employment; the phased development of ESF-oriented central management structures as well as capacity building for local employment services administration. The analysis recommends measures which are also specific to EU policy aimed at enhancing compatibility with European developments and building local capacities: quality assurance, qualifications framework, key competences, lifelong learning, research and innovation, mobility and participation in EU networks as well as need for resources to ensure that the minimum standards are in place for Kosovo to deliver primary and secondary education.

With the aim of addressing the multi-ethnicity background of Kosovo, a minority-specific education fund is recommended to promote recognition and confidence in the national education system.



## Suggested priorities for action and EU support

In terms of next steps in supporting Kosovo in employment and HRD a number of areas could be considered.

Firstly, a strategic use of IPA funds over the 2007-2013 period could be allocated to support five broad policy and institutional areas.

- labour market policy adjustment and priority setting with due reference to the EU employment strategy and selected employment guidelines of particular relevance to Kosovo's national priorities and capacities;
- Elaboration of a national action plan for employment, including development of monitoring and performance management system;
- Phased development of ESF-oriented central management structures and policy-oriented support framework, impact assessment framework and transparent management systems;

- capacity building of local employment services administration and ESF proto-type actions on employment and economic development with particular reference to counteracting unemployment amongst, young people, women, minorities and the long-term unemployed;
- continuous capacity building and development of compliance systems at central level for European policies (employment, social and HRD), monitoring, reporting and coordination.

Secondly, the EU should encourage the national authorities to ensure that the development of the education and training system is a central pillar of the overall national development plan, which is presently being elaborated. Technical support may be required for inputs to the national development plan and should address all levels of the education system (lifelong learning perspective in line with EU policy), including a needs' identification of capital resources to ensure that the minimum standards are in place for Kosovo to deliver primary and secondary education. Particular emphasis should be given to third-level non-university education which is the glaring gap in Kosovo's learning system and which will become more necessary as the economy unfolds.

In terms of institution building for HRD, expertise and technical assistance will be required for measures which are specific to EU policy: quality assurance, qualifications framework, key competences, lifelong learning, research and innovation, mobility and participation in EU networks.

With the aim of addressing the multi-ethnicity priority of the European Partnership, a minority-specific education fund could be considered with high level, transparent and visible incentives for cross-community formal and non-formal education initiatives. The aim should be to discourage the Serb community 'parallel' education sub-system and promote recognition and confidence in the national education system. Additionally, in its dealings with the Kosovar authorities on employment and HRD development from 2007 onwards, the European Union would do well to underline to the Kosovar authorities, that minorities refer to all minority groups and that specific reporting arrangements on education and employment for each ethnic group should be built into future monitoring arrangements within the European Partnership framework or other monitoring mechanism.

Finally, and with the objective of putting an end to the education shift system and putting in place a learning framework in Kosovo comparable to other EU Member States on its accession, consideration should be given by the Commission to calling and facilitating a strategic donor meeting with EU Member States to draw down the necessary finance to meet immediate capital requirements to bring Kosovo's schools to acceptable standards for compulsory education delivery. Applying the principles and practice of EU structural support for education infrastructure in underdeveloped regions in Member States through IPA would be an advantage and would ensure counterpart investment on a year-on-year basis, as national funds allow.

# MONTENEGRO



## Country profile

**Capital:** Podgorica

**Population (2003):** 620,145

## Summary

Recent ambitious privatisation initiatives demonstrate that the Montenegrin government is determined to push forward the economic transition. However, many challenges remain, including the need to address joblessness (estimated at 23%), more concerted efforts to combat the grey economy and the need for a national vision and plan to ensure that Montenegro's human resources contribute better to the country's competitiveness agenda. The Government's 'Economic Reform Agenda 2002-2007' goes some way towards tackling these issues, including enterprise restructuring, privatisation and private sector development. The country has additionally taken initial steps towards putting in place a front-line administration to support its interface with the European Union. This will need to be followed up with additional structures and measures across government departments and at sub-national level, including social partnership frameworks, as the country forges closer links with the European institutions and adopts and delivers on EU policies.

The aim of this paper is to provide an assessment and recommendations for employment promotion and human resource development in Montenegro with particular reference to IPA programming. It firstly provides an overall assessment of the labour market and human resource development in the country with respect to the broader EU employment policy objectives: full employment, quality and productivity at work and social and territorial cohesion. It goes on to review the range of policy areas and their implementation in Montenegro with specific reference to the EU's employment guidelines (2005-2008) and the contribution of the EU and other donors to employment and workforce developments. There then follows an analysis of institutional arrangements for employment and human resource development with due reference to Montenegro's interface with, and eventual integration into, EU structures. The paper concludes with recommendations for possible EU support by the IPA Programme

These include capacity building measures for employment policy and the administration and delivery of services to the unemployed disadvantaged groups. The analysis recommends assistance aimed at building local capacities in education and training delivery and management and to enhance mobility and participation in EU networks: quality assurance, qualifications framework, key competences, lifelong learning, as well as support to secondary education.

## Suggested priorities for action and EU support

The following priorities are proposed for consideration for 2007 IPA programming

- a review of overall public expenditure on active employment measures with objective of determining how existing budgetary resources can be optimised to support employment integration of youth, women, long-term unemployed and disadvantaged groups, including minorities;
- support to the Ministry of Labour and Social Welfare for first phase implementation of a national action plan for employment, including the piloting of a employment fund (national and IPA contributions) for active employment measures targeting young people, women, older workers, long-term unemployed, those from poor areas and ethnic minorities; ideally this measure should interface or be integrated within a wider regional development initiative as opposed to being a stand alone measure;
- capacity building within the administration for the overall management and administration of the employment fund borrowing on procedures, standards and accountability requirements of ESF operations from small EU Member States;
- support to the ministries of education, labour and finance for the development of an integrated national performance management system for employment and HRD, including staff capacities related to EU directives and policies, including development of performance indicators, measurement and reporting systems;
- Support to the Ministry of Education for the reform of curricula and teaching strategies in secondary education, key competencies development at ISCED levels 1 and 2 (primary and secondary education);
- support to the ministries of education and labour in governance and the ongoing implementation of modernisation strategies in education and training, including the elaboration and further development of initiatives in national qualification frameworks, comprising qualification assurance, the pathways between initial and continuing vocational education.

It is recommended that future IPA support for privatisation should ensure that employment and HRD implications are integrated into each company's restructuring plan and fully engage the public employment authorities, education ministry and municipalities.

# SERBIA



## Country profile

**Capital:** Belgrade

**Population:** 8.1 million

**Labour force participation rate (2003):** M 58.9%, F 76.4%

**Years of compulsory education:** 8

**Enrolment in upper secondary (2000/01):** 355,424

**Enrolment in technical/vocational programmes (2000/01):** 267,129

**Vocational training as a percent of enrolment in upper secondary:** 75%

## Summary

The transition process in Serbia has resulted in high unemployment levels, and women, minorities and young people have been particularly affected. The process of privatisation has contributed to this to a great extent. Most of the new jobs have been created in the informal economy.

The Ministry of Education has launched ambitious reforms, in cooperation with donors, for the modernisation of the education and training system, however most of the activities have been pilot initiatives and the results have not been translated into systemic reforms.

The most important challenge is the creation of a conducive environment for employment-friendly economic growth that can lead to job creation. This will require an integrated approach of economic development, employment and education through effective inter-ministerial cooperation and a stronger involvement of the social partners and civil society. The integration into the labour market of laid-off workers due to the privatisation process should be seen as a priority.

The second challenge is to enhance the education and skills of the population through better education and training opportunities for all. This requires the improvement of the national education structure, with a focus on regional disparities (rural – urban), gender issues, building adequate educational infrastructure, counselling and guidance. A real lifelong learning strategy, including vocational education and training (VET), higher education and adult training, should be developed by ensuring successful reforms through institution building and systematic dialogue between the MoES, MoLESP, the social partners and businesses at all levels.

The third challenge is to support the most vulnerable groups of society – disabled people, minorities and women. Therefore investment in active labour market measures (ALMM) should be improved in terms of both quantity and quality.

## Suggested priorities for action and EU support

In the perspective of achieving the objectives of full employment, quality and productivity at work, social cohesion and social inclusion we recommend to the adoption of EU Social Fund-type projects aimed at:

- Supporting efforts to increase investment in human capital, in particular by improving education and training systems;
- Developing institutional capacity and the efficiency of public administration at national, regional and local levels;

- Improving the entrepreneurship environment aimed at encouraging the development of small enterprises<sup>22</sup>;
- Supporting foreign direct investments creating employment;
- Supporting public institutions to target expenditure by coordinating donors and concentrating the scarce country resources on the main priorities. The Sector Wide Approach should be encouraged;
- Improving ALMMs with special attention to self-employment programmes and training aimed at adapting the employment offer to the employers' demands;
- Designing and implementing measures that will better target vulnerable groups (young unemployed people, women, disabled people, Roma and other ethnic minorities, etc) and facilitating their employment; In this respect, the budget and quality of ALMMs should be improved;
- Actions aimed at developing institutional capacity and the efficiency of the public administration at national, regional and local levels, including the introduction of the mechanisms for monitoring the implementation of strategies and plans in the field of education and the labour market, focused among others also on the participation of minorities;
- Adopting of a strategy aimed at reducing informality in the economy and employment;
- Supporting professional and geographical mobility;
- Reinforcing social partnerships among the main actors in preparing, implementing and monitoring development strategies and their implementation;
- Social partners will be encouraged to actively participate in capacity building actions and to undertake joint activities in the policy areas where they play a decisive role (e.g. lifelong learning, modernisation of work organisation and tackling the consequences of restructuring);
- Governmental measures have to be adopted for increasing the participation of women in the labour market and increasing equal opportunities as part of a mainstreaming approach.

Concerning economic growth, it is necessary to support the adaptability and competitiveness of enterprises and support new business and enterprises through the implementation of the European Charter for Small Enterprises. The EU should continue to support central government and local authorities in dealing with the privatisation process.

In the field of vocational education and training, there is a need to continue secondary education reforms. It is necessary to start adjusting the education system immediately, primarily with a view to reducing the discrepancy between labour supply and demand. The strategic directions of the necessary changes in the educational system should be followed by the implementation of short-term and medium-term measures:

#### Short-term measures

- Establishment of accreditation bodies for curricula and institutions;
- Adoption of a comprehensive education strategy in Serbia (from elementary school to doctoral studies) in accordance with the country's economic and social development;
- Strengthening of the capacity of vocational schools to deliver better quality services through the implementation of modernised curricula; teacher training and investment in infrastructure – for both school rehabilitation and equipment;
- Strengthening of the pre-service and in-service vocational teacher training system;

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<sup>22</sup> The 3rd implementation report on the Charter for Small Enterprises of the European Commission puts Croatia in the lead together with Serbia amongst the Western Balkan countries for improving the entrepreneurship environment.

- Development of a strategy for the education system, with particular emphasis on the decentralisation process;
- Introduction of an examination system for general and vocational schools;
- Adoption of a strategy on adult education;
- Establishment of a Vocational Council at national level;
- Teacher training and education, coupled with the best possible equipment for schools.

#### Medium-term measures

- Development of a flexible and modern education system based on the lifelong learning concept;
- Establishment of a national framework for qualifications;
- Establishment of a framework for career guidance;
- Adoption of institutional models for monitoring education quality at all levels;
- Development and implementation of a strategy for the education of minorities, with special attention to the Roma people.





# TURKEY



## Country profile

**Capital:** Ankara

**Population (2005):** approx. 72 million

**GNI per capita PPP (2004):** 7,680 int'l \$

**Labour force participation rate:** M 67.8%, F 24.3%

**Years of compulsory education:** 8

**Enrolment in upper secondary:** 46.47% (M 50.24%, F 42.41%)

**Vocational training as a percent of enrolment in upper secondary:** 31.4%

## Summary

The key challenge for Turkey as regards human resources development is its population of almost 72 million people in 2005<sup>23</sup>, of which 20 million are in the 0-14 age cohort. When combined with current trends in participation in employment and education, Turkey has a major opportunity that could be missed if substantial progress on modernisation and reform in human resources development (HRD) is not made.

The Turkish State Institute of Statistics has made projections until 2020 predicting that, by then, 40 million people will be in the 15-44 age group and 10 million in the 45-64 age group. This implies that almost 70% of the population will be of working age (15-64). This increase in the working age population represents a unique opportunity for Turkey for both economic and social developments, provided that there is a substantial increase in human resources development through adequate investment in education and training. A continuation of the recent acceleration of economic growth will increase the need for medium and highly skilled workers.

Improving the quality of education and increasing educational attainment particularly at primary and secondary levels as well as amongst the adult population, are the overriding priorities in education. Serious investment now will pay off in the future. Consolidating, expanding and evaluating the reform initiatives already underway in the field of education, training and employment should be the main priorities for EU investment in the period 2007-2013. Progress in education and training will contribute to Turkey's social and economic development as it prepares for accession.

In particular, priorities for future investment should include objectives related to ensuring economic growth through higher competitiveness of the workforce and improving social cohesion by strengthening institutional capacities for designing and implementing policy actions. Specifically, HRD measures involving social partners and civic society organisations are necessary as is the reform of education and training within a lifelong learning strategy aimed at improving access, quality and meeting the requirements of the changing labour markets.

The finalisation of the EC - Joint Assessment Process (JAP) and EC - Joint Inclusion Memorandum (JIM) processes will further guide Turkey during the pre-accession period in aligning employment and social cohesion policies to EU benchmarks. Programmes should aim at enhancing the development and implementation of employment policies with a view to increasing active labour market measures that target gender equality and the participation of women and social cohesion.

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<sup>23</sup> Source: Eurostat, average population source

There are major regional disparities and disparities between rural and urban areas. Addressing these differences will be an important challenge in the coming years. Increasing educational attainment in the eastern part of Turkey is a priority.

## **Suggested priorities for action and EU support**

The **first and main challenge** is to integrate economic, employment and education policies under a comprehensive strategy. There is a need to design a holistic approach and a combination of policy measures encompassing economic and social domains within a lifelong learning perspective. In order to address this challenge, the following actions are needed:

- Assist Turkish authorities, through EU programmes, in the implementation of the recommendations of the JAP and the JIM for employment policy priorities focusing on the employment of certain population groups (women, young people, those leaving the agricultural sector);
- Strengthen the institutional capacity of ISKUR, in particular at regional level;
- Support the implementation of active employment measures, in particular targeting gender equality and social cohesion of vulnerable groups;
- Support the development of social dialogue and other types of partnership through institutional capacity building programmes at regional level for local authorities, NGOs, social partners;
- Support labour market institutions regional employment offices by increasing their capacity in the implementation of employment programmes and in particular the absorption capacity for active measures.

The **second challenge** is represented by the need to develop strong partnerships at regional level among social partners, public institutions, NGOS, etc. Social services need to be supported. The practice of regional development is still at a very preliminary stage and the issue of human resources development in particular is still not well understood. In order to address this challenge the following actions are needed:

- Assist the elaboration of HRD regional plans, with a special focus on gender, based on labour market needs;
- Disseminate cases of good practice of active employment measures already implemented in Turkey and in the EU Member States;
- Training and capacity building for quality social services, in particular in disadvantaged rural and urban areas.

The **third challenge** is aimed at the design and implementation of an overall education reform, within a lifelong learning perspective, with the aim of ensuring full access and higher quality and relevance of the education and training system according to the needs of a knowledge economy. Specific actions to support this challenge concern:

- Undertaking fundamental reforms in the role, mission and functions of the Ministry of National Education, including significant decentralisation to the provinces and schools;
- Expanding access to early childhood care, including extending universal access to pre-school education to all children aged three to five;
- Ensuring 100% enrolment in basic education of both boys and girls in all regions;
- Assessing the impact of the new curricula implemented in both basic and vocational education and adjusting them whenever necessary. Continuing to produce learning material for the new curricula;
- Designing and implementing new student assessment and examination systems in line with the European Qualification Framework;

- Promoting the transition to secondary education, in particular for girls, and flexibility within the system in order to make vocational education and training more attractive;
- Improving the quality of human resources: teachers, principals, school guidance counsellors and administrators at every level of the system;
- Expanding access to training for adults through the development for adult learning strategies and pathways between initial and continuing vocational education.



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