

Employment Policy Review

Serbia

International
Labour
Organization



Employment Policy Review

Serbia

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in 2005 and 2006

The opinions expressed in this work are the responsibility of the authors and do not necessarily reflect the official policy of the Council of Europe.

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Foreword

The period of political turbulence and restructuring that they went through presented the countries of South-East Europe with significant challenges. They needed to restructure their national economies and get them back onto a path of sustainable growth, revive demand for labour and raise employment, as well as fight unemployment, underemployment, increasing gender inequalities and the social exclusion of vulnerable groups.

The South-East European Ministerial Conference on Employment held in Bucharest on 30 and 31 October 2003 acknowledged the serious employment challenges faced by the Stability Pact countries. The Bucharest Declaration adopted at the Conference called for regional co-operation in addressing these challenges, so as to bring about major improvements in national employment policies. The International Labour Organization and the Council of Europe were asked to give guidance and support to this effort by reviewing national employment policies, in close co-operation with the social partners and labour market institutions, and by providing policy recommendations and assisting with their implementation. This joint remit is being fulfilled under the auspices of the Initiative for Social Cohesion of the Stability Pact for South-Eastern Europe. The Ministers of Labour of the Stability Pact countries approve and update the objectives of this co-operation, and the activities are designed and supervised by a Permanent High-Level Committee comprising Directors General of Employment and representatives of National Employment Services.

Meanwhile, the “Bucharest Process” has become a significant reference point for employment policy development in South-East Europe. The Sofia Conclusions adopted at the 2nd Ministerial Conference, held in Sofia on 21 October 2005, endorsed the process and placed even more emphasis on policy coherency and social dialogue.

This series of Country Reviews of Employment Policy (CREP) is the major outcome of this process. Each review is based on a national report produced by the relevant Ministry of Labour in co-operation with the National Employment Service. They are adopted at National Tripartite Conferences organised by the ILO, the promotion of social dialogue being a key component of the process.

These country reviews can be used to strengthen labour market institutions and to make employment and labour market policies in the countries concerned more coherent and effective within the framework of an integrated policy approach. Particular emphasis is placed on gender equality issues, and especially on developing strategies designed to mainstream gender in employment policies and to promote gender equality in follow-up activities.

The review process is intended to help to promote decent and productive employment for women and men in Stability Pact countries, while converging with the guidelines of the European Employment Strategy and strengthening stability and social cohesion in the region.

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Introduction

Objectives

This Country Review of Employment Policy focusing on Serbia serves various purposes:

- It highlights the main labour market and employment challenges facing Serbia and provides a number of recommendations about addressing them.
- It contributes to the implementation of international labour standards and principles relating to employment¹ in Serbia, and in particular **ILO Employment Policy Convention (No. 122)**, 1964, requiring governments of ratifying countries, in close collaboration with the social partners, to formulate and implement an active policy promoting full, productive and freely chosen employment. The general principles of an active employment policy are set out in greater detail in the **ILO Employment Policy Recommendation (No. 122)**, 1964. The review also seeks to support the implementation of the provisions of the **ILO's Global Employment Agenda (GEA)** that places decent employment at the heart of economic and social policies. Consistent with the Millennium Development Goals, the GEA seeks, through the creation of productive employment, to improve the lives of the millions of people who are either unemployed or whose remuneration from work is inadequate to allow them and their families to escape poverty. The fundamental role played by employment in fighting poverty and social exclusion was also a conclusion of both the World Summit on Social Development in 1995 and the 24th Special Session of the United Nations General Assembly in 2000, which called upon the ILO to develop a coherent and co-ordinated international strategy for the promotion of freely chosen and productive employment.
- The review is also intended to make operational the standards on employment and labour market policy that are defined by the **European Social Charter** and the core elements of the **Revised Strategy for Social Cohesion of the Council of Europe** (2004). The latter states that access to employment for all and the promotion of decent employment are key elements of social cohesion and that “*investment in human resources is one of the most crucial areas of investment for future economic growth*”. The Council of Europe has also drawn up a number of guidelines and recommendations on improving access to employment, especially for the most vulnerable groups.
- This Employment Policy Review is a contribution to Serbia's preparation for future membership of the European Union by converging with the **Guidelines of the European Employment Strategy (EES)**. For this purpose, the present report has been drafted on the model of the Joint Assessment Papers on Employment Policies formulated by the European Commission and the countries preparing for accession.

1. See Appendices I and II for a list of international instruments ratified by Serbia.

Background

Serbia was the third country, after Albania and Croatia, to have its employment policies assessed by the Council of Europe and the International Labour Office, in compliance with the commitments made by the Ministers participating in the South-East European Ministerial Conference held in Bucharest on 30-31 October 2003.² The “Bucharest Declaration”³ mandated the ILO and the Council of Europe to assess the employment situation of the Stability Pact countries involved in the process of regional co-operation on employment, and draw up recommendations in a Country Review of Employment Policy (CREP).

On the basis of an outline for national background reports, jointly prepared by the ILO and the Council of Europe, Serbia agreed to draw up a detailed report on its labour market and employment policies. In order to obtain a comprehensive overview of the employment situation in Serbia, the ILO and Council of Europe team in charge of the elaboration of the Employment Policy Review visited Serbia in March 2005. The aim was to collect additional information and examine more thoroughly specific labour market issues. This Review was subsequently submitted for discussion within the Serbian Ministry of Labour, Employment and Social Affairs before its presentation at the 4th Session of the Permanent High-Level Committee of the “Bucharest Process” that took place in Budapest in September 2005. The review was also discussed at a National Tripartite Conference organised in Belgrade on 7 March 2006. This event provided an opportunity for the social partners to discuss and assess the findings of the Review.

Both the ILO and the Council of Europe are very grateful to the Serbian authorities for their active support, guidance and efficient co-operation and, in particular, to the Ministry of Labour, Employment and Social Affairs and the National Employment Service.

2. Forthcoming CREP: Moldova, “the former Yugoslav Republic of Macedonia”, Montenegro and Bosnia and Herzegovina.

3. See Appendix III to this report.

1. Economic situation

Due to the effects of war and economic sanctions against the country, Serbia's GDP fell by around 60% between 1989 and 1993, the worst economic downturn in any transition country, with the exception of Georgia. A modest recovery to just over 50% of the 1989 level was halted by war with NATO in 1999, and GDP slid back to almost its lowest level. Since then a continuous recovery has set in, lifting the country's GDP well above 50% of the 1989 figure for the first time since 1990. Growth was very strong in 2004 (8%) and is expected to remain at around 4-5%. Serbia is a middle-income country with a (PPP adjusted) GDP per capita of about US\$5,200, which is about two-thirds of Bulgaria's or half of Croatia's.⁴

The economic disaster that Serbia experienced in the 1990s also had a varying impact. Although precise measures of income distribution during the socialist era are not available, estimates suggest that wage income inequality increased modestly between the 80s and the 90s, due to an already relatively high level in the 80s as compared to that in other socialist countries.⁵ In the crisis year of 1999, 21.8% of the population was living in poverty. By 2005 this figure had been more or less halved, with 10.1% of the Serbian population receiving an income below the national poverty line of US\$2.40 a day. However, according to World Bank estimates, up to a third of the population is barely above the poverty line and might well slip below it in the event of an economic downturn.



The transition process started slowly in Serbia, but has recently gained ground through accelerated privatisation. While the private sector accounted for only 12.4% of GDP in 1989, its share had risen to 42.6% by 2003, mainly due to the collapse of non-private economic

4. Estimates are from the Economist Intelligence Unit's country profile and report on Serbia and Montenegro.

5. The Gini coefficient for Serbia rose by about 0.03 points to 0.30, where it remained throughout the 1990s with some fluctuations. See Gorana Krstic and Barry Reilly (2003): *An Anatomy of Labour Market Earnings Inequality in Serbia 1995-2000*. However this estimate is for wage incomes only. As the emergence of a private sector has reduced the labour component of GDP, the actual increase in the overall Gini coefficient is likely to be larger.

activity, which in absolute terms shrank to less than one-third of its 1989 level, while private activities almost doubled. According to the director of the privatisation agency, it is planned to privatise all socially owned enterprises, with about 300,000 employees, by the end of 2006, putting a heavy strain on the labour market in the years thereafter.

While agriculture still accounts for almost 20% of GDP, the share of industry has fallen to little more than a quarter. Under socialism, Yugoslavia (and Serbia) had a fairly diversified economic structure, with a wide range of manufacturing industries, such as car making, chemicals, textiles, food processing and furniture production. The economic sanctions in place since the early 90s and the loss of markets in former Yugoslavia contributed to the decline of Serbian manufacturing, and NATO bombing in 1999 destroyed much of the physical production base. Since then, despite the healthy growth of the economy as a whole, industry, and especially manufacturing, have continued their decline, with only chemicals and basic metals production showing signs of recovery. At the end of 2004, manufacturing output stood at only 86.7% of its 1998 level. Even sectors like textiles, leather production and wood products, where Serbia had been traditionally strong, have contracted, due to a lack of domestic and foreign investment.

After experiencing one of the worst periods of hyperinflation in economic history in 1993, Serbia saw renewed episodes of inflation until 2001. Thereafter gradual disinflation brought price growth down to single-digit figures by 2003. However prices then started to rise steadily again, and inflation reached 17.5% year on year in May 2005. Although this is partly due to the introduction of VAT at the beginning of that year and to high energy prices, it also seems to reflect mounting wage pressure, as nominal wages grow significantly more strongly than prices in general.

The Serbian budget balance has been rather volatile in recent years, with deficits of 2.8% and 1.7% of GDP respectively in 2003 and 2004. While the deficit has mainly been financed by foreign borrowing and through privatisation receipts, the introduction of VAT even enabled the Serbian Government to run a budget surplus in the first half of 2005. The government also achieved a sizeable reduction of its debt ratio from more than 120% of GDP in 2001 to less than 60% in 2005, partly due to increased growth and partly due to a more austere fiscal stance.⁶

Serbia mainly exports manufactured goods and food products to its main trading partners, Bosnia and Herzegovina, Germany and Italy, but suffers from a severe external imbalance. It has a current account deficit of more than 12% of GDP and annually borrows the equivalent of more than 4% of GDP abroad to finance its external deficit. Thanks to strong growth, however, total foreign debt has fallen to about 40% of GDP. In spite of the large external deficit, the dinar kept rising strongly (by around 100%) in real terms following devaluation in mid-2000, due to strong wage and price growth – thereby reducing external competitiveness. So far as well, the inflow of foreign direct investment into Serbia has been disappointing, with accumulated FDI per capita between 1989 and 2003 of around US\$300, which is less than Romania's figure, about half of Bulgaria's and less than a sixth of Croatia's.⁷

In recent years, Serbia has taken steps to improve the environment for small and medium-sized enterprises (SMEs). SMEs' share of total GDP rose continuously, from 34% in 2000 to

6. See. IMF Country Report 05/13.

7. See. EBRD Transition Report 2003.

51% in 2003, while the number of enterprises increased by 11%. Most enterprises operate in the services sector, notably in commerce and trade.⁸

2. Labour market situation

2.1. Population and labour force participation⁹

Demographics

As the 2002 census did not include Kosovo, some of the statements below only refer to central Serbia and Vojvodina, but it seems safe to assume that the observed tendencies also applied to Serbia as a whole (i.e. including Kosovo). Between 1991 and 2002 a strong decline in the population of Serbia (excluding Kosovo) is observable: the population fell from 7.83 million to 7.52 million, which is a decline of almost 4%, although the data are not fully comparable following changes in definitions. The decline in population is due to a marked reversal of the natural rate of increase after 1991, with higher death and lower birth rates, but the situation stabilised towards the end of the 1990s.

The percentage of older people in the population is similar to that in West European societies (16.6% of the population of Serbia is aged 65 or over), while under-15s make up 15.2%. Due to high birth rates in Kosovo, however, the actual proportion of young people is probably higher. In the future, Serbia will face similar demographic problems to the average European country, albeit on a slightly smaller scale.

Migration

The impact of migration on the population of Serbia is a result of several factors. Not only did 3.5% of the population already work abroad before 1991, but also an estimated 1 to 3% of the population fled the country after the beginning of the Balkan wars. On the other hand, the country also received from neighbouring countries an influx of refugees estimated to equal almost 5% of its population. Two to 3% of the population are still regarded as internally displaced persons by the UNHCR, mainly Serbian refugees from Kosovo. All in all, in spite of outward migration, the Serbian labour market had to absorb an unusually high number of newcomers during the 1990s.

Labour force

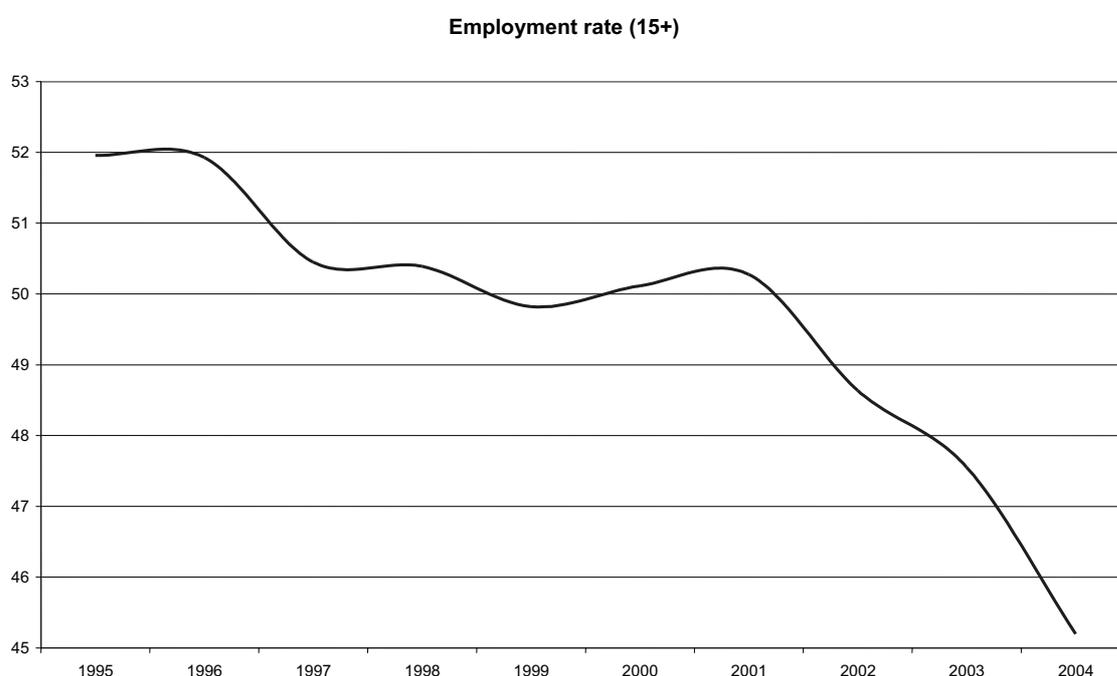
Although the total population of working age (15+) has declined strongly in recent years, the number of economically active people fell even more strongly, leading to a reduction in the activity rate from 59.7% in 1997 to 55.5% of the working-age population in 2004. For women, the activity rate was 47.0%, almost 20 percentage points below the male rate. Among the active population about 7% were only active periodically. Among the inactive population, a little over half were pensioners, while almost half of the other inactive persons were housewives, not quite 40% were in education and almost 10% had disabilities.

8. See. Ministry of Economy: SME and Entrepreneurship. 2003 Report.

9. Calculations in this chapter are based on official data from the Statistical Office of Serbia.

2.2. Employment developments

Total employment in Serbia has been falling continuously since 1990, with a brief upturn in 1997. In 2004 it reached its lowest level, at just over 80% of the 1990 level, but the fall in employment was not as marked as the fall in GDP. According to labour force survey (LFS) data, the employment rate for the 15+ working population also fell from 52.0% in 1995 to 47.6% in 2003. In 2004 the value was 45.2%, but the methodology had been changed to comply with Eurostat definitions, so the figure was not strictly comparable with earlier estimates. After stabilisation of the employment rate at about 50%, between 1997 and 2001, employment started to fall dramatically in 2001. For the 15-64 age group, the employment rate is 53.5%, which is similar to the level in Poland, Bulgaria or Croatia, but almost ten percentage points lower than the EU average. One of the main reasons for this low employment rate is the very low youth employment rate (15-24 age group) of 18.6%, which compares very unfavourably with the EU average of 36.4%.



As with activity rates, male and female employment rates are very unequal. In October 2004 only 41.7% of employed persons were women, a proportion that has been practically unchanged since 1997, when the figure was 41.6%. This corresponds to a very low employment rate for women of 36.3%, while the male rate is 54.9%.

A considerable proportion of the labour force (22.5%) is self-employed, while 70.3% are employees. The remaining 7.2% are helping family members. For women the self-employment rate is much lower (at 13.4%) and the proportion helping family members is higher (12.7%). In a household survey conducted in 2001 and 2002, it emerged that 22.6% of the employed held additional jobs. Although multiple jobs are typical among low earners, this is a very high rate by international standards.¹⁰ An indication of the large amount of hidden unemployment is a relatively high rate of absence: in October 2003, 5.3% of all employed persons were not at the workplace, due to imposed holiday, unpaid leave or other reasons.

10. Kosovka Ognjenović: *Analysing Determinants of Wages and Wages Discrimination. The Example of Serbia*. G 17 Institute. 2002.

According to the LFS, in 2003 6.1% of employees worked in agriculture and fishing, 35.7% worked in industry and 58.2% in services. While total employment in the services sector has also shrunk in recent years, employment in industry fell disproportionately, most notably in the manufacturing industries, thereby shifting the pattern of employment more towards the services sector. Of the roughly 140,000 jobs lost in Serbia between 2001 and 2003, 8,000 were in the primary sector, 30,000 in services and 94,000 in manufacturing. These figures give only a general impression of the structural shifts in employment, as about one-third of the employed were not covered by this survey, because they are not permanent salaried employees. If the 500,000 independent farmers are included, employment in agriculture rises to a quarter of total employment. Apart from agriculture, the most important sectors of employment are food and metal production, construction, wholesale and retail trade, transport and education and health.

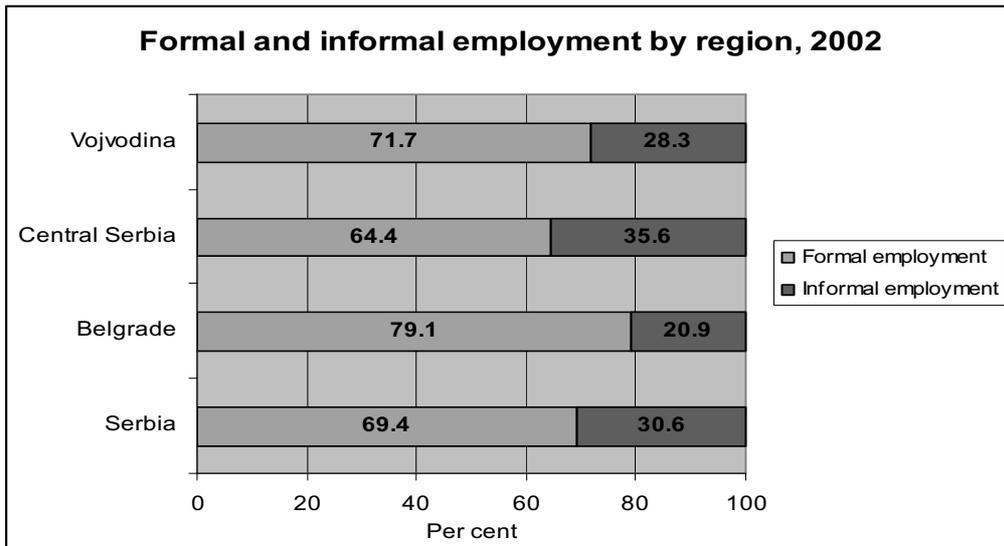
In terms of ownership of enterprises, Serbia still has a long way to go to a market economy: in 2003, almost two-thirds (62.2%) of salaried employees worked in state-owned establishments, and another 6% in “socially owned” enterprises. Given that the private sector produces 42.6% of GDP, this indicates that productivity is about 60% higher in the private sector. Further privatisation of enterprises will therefore continue to put very strong pressure on Serbia’s labour markets.

Although overall employment is falling, employment in small and medium-sized enterprises increased by 7.3% in the period 2000-2003. In 2003, 54% of all employees worked in SMEs, although this is still a low rate by international standards. The average number of employees per SME dropped from 22 to 18 over that period. The dominance of the state can also be observed in the SME sector, where only 44% of employees work in the private sector.¹¹

The qualification level of persons in employment rose overall between 1993 and 2003: 40.4% of all employees were skilled or semi-skilled workers, and 22.3% had received tertiary education. The strongest increase was observed in workers with university-level education, whose share increased by 47% over the same period.

The informal economy plays an important role in the Serbian labour market. Although it existed under socialism, it became more prominent in the 1990s and continued to grow in the early years of transition. Calculations based on the LSMS suggest that informal employment accounted for 31 and 35% of total employment in 2002 and 2003 respectively (see figures below). Serbia, where the highest incidence of informal employment is 37% in the central region, had one of the highest proportions of informal employment in Europe, second only to Bosnia and Herzegovina (World Bank 2004: 94).

11. See. Ministry of Economy: SME and Entrepreneurship. 2003 Report, p. 11.



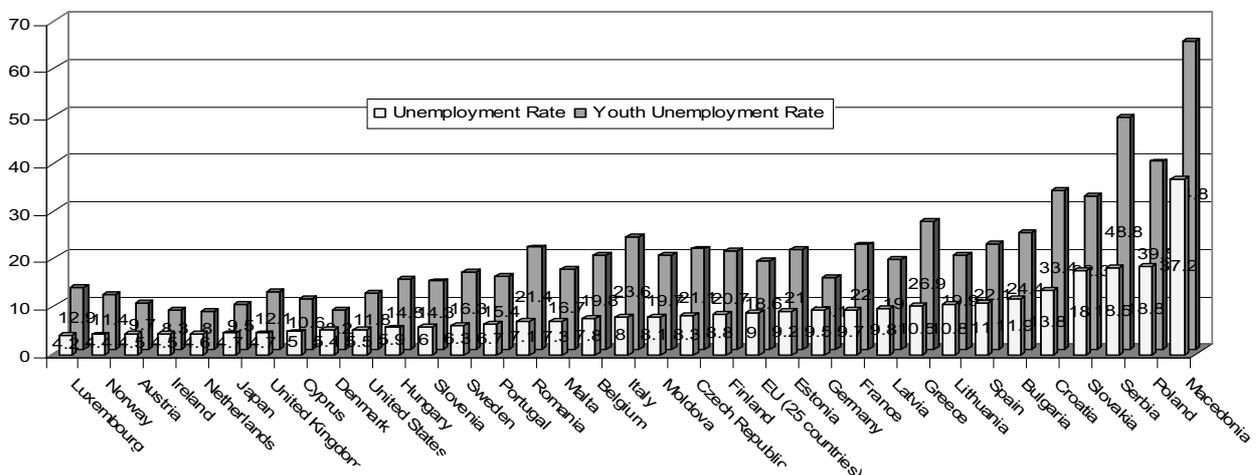
Source: World Bank 2004: 95

Despite the inaccuracy of the limited data on the informal economy, it is plausible to assume that the informal labour market, like the formal labour market, is divided along gender and ethnic lines. Indeed, in order to survive, most Roma are involved in the informal economy, very often in such trade and small business activities as collecting raw materials or street/market selling. Moreover, among the Roma population, there is a high incidence of child labour in the informal sector. A recent UNRISD publication states, for instance, that Roma women in Serbia are concentrated in the worst informal jobs (UNRISD 2005: 73). As earnings, working conditions and opportunities in the informal economy differ according to the sex and ethnic origin of workers, it is important to understand the different factors that lead men and women to engage in informal work, as well as the risks associated with the jobs they obtain.

2.3. Unemployment

Overall trends

Despite the unfavourable conditions on the labour market, the unemployment rate (according to the ILO definition) has not been excessive, staying fairly stable between 1995 (12.9%) and



2003 (14.6%), with a slight increase towards the end of that period. In 2004, the LFS was conducted according to Eurostat methodology, and the unemployment rate surged to 18.5%. The discrepancy is partly due to the fact that there are about 243,000 sporadically active workers in addition to the roughly 500,000 who are unemployed in the strict sense. For 2003 for instance, the unemployment rate was 21.7% according to the national definition, which counts sporadically active workers as unemployed.

Registered unemployment diverges systematically from unemployment as recorded by the LFS; in 2004 there were about twice as many people (944,000) registered as unemployed as shown in the LFS results, indicating the existence of a large informal sector.¹² This divergence has only developed over recent years: in 1997, there were only one and a half times as many registered unemployed as persons recorded as unemployed in the LFS. One of the main incentives for registering is the entitlement of persons registered as unemployed to a range of other benefits, such as health and pension insurance, social assistance benefits, subsidised child care, local transport, and access to active labour market programmes.

Structural features of unemployment

At the time of the October 2004 LFS, 54.4% of the unemployed were women. This share had been slightly reduced in the preceding years (it was 57% in 2000). The unemployment rate for women (22.9%) was, however, still much higher than the male rate.

Unemployment was particularly pervasive among young people: 17.7% of the population aged 15-24 was unemployed in 2004, resulting in a youth unemployment rate of about 48.8%, and for young women it was still higher at 51.2%. These values are very high, even if compared with youth unemployment in other transition economies, where youth unemployment tends to be high. The ratio of youth unemployment to general unemployment was 2.6, compared to an EU average of 2.1.

Most unemployment was long-term. According to the 2003 LFS, 75.3% of the unemployed had been out of work for more than a year, a situation which had prevailed over the previous decade, with few fluctuations. It is particularly alarming that 41.8% of the unemployed had been out of work for more than 3 years, and 28% for more than 5 years.

A breakdown of the unemployed population according to educational attainment shows surprisingly high numbers of unemployed people with a higher educational level. About one third of the unemployed had either higher education or tertiary or secondary vocational education, while only about one-third of the unemployed were unskilled workers. For women there was an even stronger bias towards a higher educational level. These data from the employment services are confirmed by LFS data which show that about two-thirds of the unemployed had secondary education, and only a quarter had primary education or less.

About half of the unemployed were first-time job-seekers.¹³ Among the other job-seekers, about half had been laid off due to redundancies, and an additional quarter became unemployed through the termination of temporary employment. In 2000, the percentage of new entrants to the labour market was significantly higher at 70.8%, which points to increased restructuring and lay-offs in the past four years.

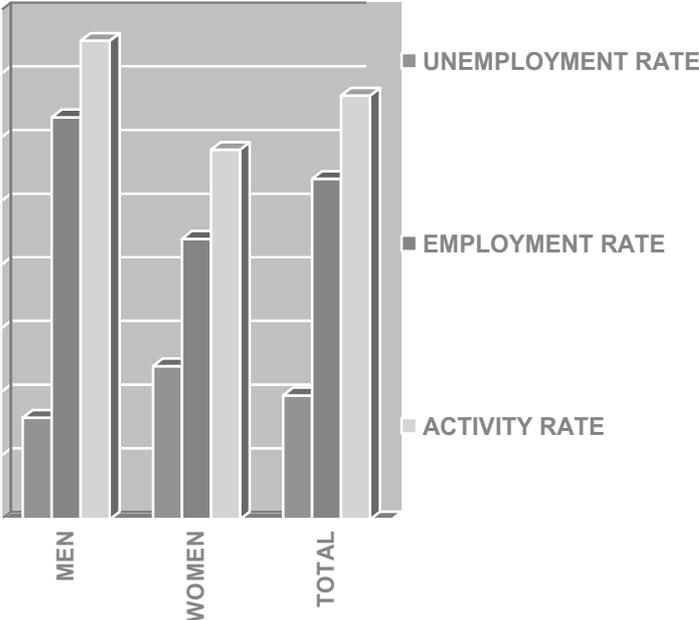
12. Bulletin 04/2005 of the National Employment Service.

13. Only about half of this group was 15-24 years of age, which indicates a deferred entry into working life.

Some groups of the population, notably IDPs and returnees and ethnic minority groups, face a significantly higher risk of unemployment and poverty than the local indigenous population. The Roma form the minority group most excluded from the labour market. According to the UN Committee on Economic, Social and Cultural Rights,¹⁴ poverty among the Roma population is four or five times higher than for the majority population; research carried out in 2002 in Roma settlements¹⁵ shows that 68.4% of Roma heads of family were unemployed, whereas the comparable figure was only 15.7% for their non-Roma neighbours. Among the Roma population in Serbia, some categories are even more at risk of unemployment and complete exclusion from social networks, namely women and Roma IDPs (from Kosovo or returning from third countries where they had been granted temporary protection). The high unemployment and other social problems affecting Albanians, Bosnians and Bulgarians are at least partially due to the fact that a large number of persons belonging to these national minorities are concentrated in areas with particularly severe economic difficulties.

Refugees and IDPs are another group of particularly vulnerable persons as a consequence of the conflicts of the 1990s. Some of the refugees and IDPs still lack adequate papers, especially Roma IDPs from Kosovo. As a result, they are not granted the formal status of IDPs and have no access to social, employment or housing services. As of January 2005, there were about 140,000 registered IDPs in Serbia.¹⁶ Up to 90% of them were thought to live below the poverty line.

Activity, employment and unemployment rates by sex, 2004



Source: NES 2006

14. Concluding Observations of the Committee on Serbia and Montenegro, April 2005, and Zoon & Kiers 2005.
 15. Council of Europe: 2005.
 16. Source: Serbian Commission for Refugees and Displaced Persons, January 2005.

3. Main priorities for employment policy

3.1. Employment protection legislation¹⁷ and labour market flexibility

Serbia's pre-reform labour market differed in many ways from those of other former socialist economies. Two characteristics shared with the other economies of former Yugoslavia have an important bearing on the flexibility of the labour market. *First*, Serbia's labour market was shaped by the "self-management" system for enterprises, whereby firms had obligations which in market economies are met by labour market institutions and social funds. The system led to high levels of job protection. Reformed legislation adopted in 1989 gave employers the formal right to lay off workers, but this change had a limited impact since dismissal procedures remained complex and costly. Further, during the period of UN sanctions, dismissals were prohibited by government decree. *Second*, informal employment was tolerated by the government since it was one of the key survival strategies during the 1990s. As a result, about one-third of all employment was in the informal sector during that period.¹⁸ When reforms started in late 2000, the labour market was thus highly segmented, characterised by very large pockets of highly protected workers in the socially owned companies on the one hand, and by a large group of totally unprotected workers in unstable jobs in the informal sector on the other hand.

3.1.1. The legislative framework

The Labour Law was adopted in 2001 to address this challenge by relaxing employment protection legislation. The overall aim of the new law was to promote the efficiency of the labour market by removing overprotection of employees, while providing employers and employees with basic protection and rights. Three significant changes were introduced.

First, the scope for employers to dismiss their employees was increased (see boxes 1 and 2). *Second*, rules for a redundancy programme in the event of restructuring were introduced. *Third*, a variety of employment contracts was introduced. Non-standard forms of employment, such as fixed-term contracts (for up to three years), part-time work and homeworking were allowed.

17. EPL refers to regulatory provisions relating to recruitment and dismissal, particularly those governing unfair dismissals, termination of employment for economic reasons, severance payments, minimum notice periods, administrative authorisation for dismissals and prior consultations with trade union and/or labour authority representatives.

18. World Bank 2004: 92.

Box 1: Key Innovations Introduced by the Labour Law of 2001

The Labour Law and other related laws adopted since 2001 have significantly altered the legal and institutional environment of Serbia's labour market. This is primarily reflected in simplification and reduced costs related to recruitment and dismissal processes. Taking workers on has become easier, quicker and less costly, as the employer is no longer obliged to advertise vacancies, the trial period is shorter, and flexible forms of employment (i.e. part-time and fixed-term jobs) are allowed. Employers can terminate the labour contract if there is no longer a need for a certain task to be done following technological, economic or organisational changes. Severance payments have been reduced.

Working conditions have been harmonised with those in most transition economies. Overtime limits, the minimum amount of annual leave and maternity leave arrangements have all been precisely defined and are in line with regional standards. Minimum wages are set by mutual agreement between government, unions and employers. The representation of unions and employers is more precisely defined. Collective agreements are binding only on those employers who are members of the employers' association that is the signatory to the collective contract, or those who have joined the association subsequently. According to the previous legislation, general and special collective contracts were applied directly and were binding upon all the employers in the country or in a certain branch. The Minister in charge of labour may extend the application of the special collective contracts to include non-members of the employers association, but he is obliged to request the opinion of the signatories to the collective contract before deciding on such an extension.

Source: World Bank 2004: 106

In terms of World Bank benchmarking, Serbia and Montenegro compares to the average of the Central and Eastern European countries regarding regulation of the employment relationship, but its legislation appears to be somewhat stricter than in the OECD (see tables 1 and 2). It appears to be not so much the employment laws, nor the rules on recruitment and dismissal, but the conditions of employment – hours of work, leave, minimum wage and right to these, as set down in the Constitution – that make Serbia's labour legislation stricter than the OECD average. This suggests that employment protection legislation in Serbia is no longer a source of rigidity.

Box 2: Changes made to employment protection legislation

<i>Notice period</i>			
Law in effect	Until December 2001 Art. 112 Law on Employment Relations (Official Gazette of RS, Nos. 55/96 and 28/2001)	As from January 2002 Art. 104 Labour Law (Official Gazette of RS, No. 70/2001)	March 2005 amendments Art. 189 Labour Law (Official Gazette of RS, No. 24/2005)
Minimum notice period	1 month	3 months	Up to 30 days
Maximum notice period	3 months	6 months	
<i>Severance payments</i>			
Law in effect	Until December 2001 Art. 34 Law on Employment Relations (Official Gazette of RS, Nos. 55/96 and 28/2001)	As from January 2002 Art. 117 Labour Law (Official Gazette of RS, No. 70/2001)	March 2005 amendments Arts. 158 and 159 Labour Law (Official Gazette of RS, No. 24/2005)
Minimum amount of severance payment	Twice gross wage of employee	Twice gross wage of employee	1/3 of gross wage of employee for each completed year of service
Maximum amount of severance payment	Five times gross wage of employee	Five times gross wage of employee	

On the part of many employers, there is a reluctance to terminate employment even though this would be legitimate under the labour legislation. This is regarded as stemming from either cultural values or employers' belief that, whatever the law says, it is too much trouble to try to dismiss an employee. Workers in large state companies – even those without real jobs or salaries who may be working in the informal economy – are often reluctant to leave the job that they hold and take up other formal employment, probably for fear of missing out on benefits from the social programme linked to company restructuring.¹⁹

In March 2005, amendments to the Law on Employment were passed in parliament, introducing new types of employment policy measures, more detailed and accurate provisions for particular measures (individual employment plans, cessation of record-keeping, obligations of the persons seeking new (change of) employment, etc.) as well as:

- an obligation to establish local Employment Councils to adopt active employment policy programmes, in line with the situation and needs of the specific case – and in co-operation with all relevant local players;²⁰
- more accurate regulations covering employment agencies;
- methods of evaluating the performance of employment activities and operations.

All social partners were consulted about this new law, which is the outcome of good co-operation between the social partners and the Ministry of Labour.

19. ETF 2005: 31.

20. Amendments to the law currently under review in parliament envisage a return to the obligation to establish local Employment Councils to adopt active employment policy programmes.

Table 1: Labour legislation flexibility index 2003 (0 = absolute flexibility, 100 = absolute rigidity)

Region or country	Flexibility of recruitment index	Conditions of employment index	Flexibility of dismissal index	Employment laws index
BiH	53	63	31	49
Bulgaria	43	90	26	53
Croatia	76	89	31	65
Czech Republic	17	63	27	36
Hungary	46	92	23	54
Macedonia, FYR	65	53	32	50
Serbia and Montenegro	51	88	29	56
Slovak Republic	34	89	60	61
United States	33	29	5	22
OECD	49	58	28	45
Europe & Central Asia	51	82	39	57

Notes: The indexes are calculated from the raw data provided in the Cost of Doing Business Database (2003). *Flexibility of recruitment* covers regulations on part-time and fixed-term contracts; *conditions of employment* cover hours of work, leave and minimum wage; *flexibility of dismissal* covers the grounds for dismissal, dismissal procedures and notice and severance payment.

Source: World Bank 2004: 115

Table 2: Synthetic indicators of the stringency of employment protection for regular and temporary employment

Country	Overall employment index	Regular employment index	Temporary employment index
Slovak Republic	13	18	8
Albania	17	35	0
Poland	18	35	0
Estonia	19	39	0
Hungary	19	29	8
Czech Republic	30	27	33
Serbia and Montenegro	33	40	25
Bulgaria	34	17	50
Lithuania	47	36	58
Macedonia, FYR	48	46	50
BiH	59	35	83
Latvia	66	49	83
Croatia	67	60	75
Romania	79	70	88

Notes: The indices are calculated from the raw data provided in the Cost of Doing Business Database (2003). The *regular employment weighted index* is constructed in the following way (weights in parentheses):

- Procedures (1/2)
 - The employer must notify a third party before dismissing one redundant employee? (1/6)
 - The employer needs the approval of a third party to dismiss one redundant worker? (1/6)
 - The law stipulates retraining or replacement prior to dismissal? (1/6)
 - There are priority rules applying to dismissal or layoffs? (1/6)
 - There are priority rules applying to re-employment? (1/6)
 - Is redundancy considered a "fair" ground for dismissal? (1/6)
- Dismissal costs (1/2)
 - Legally stipulated notice period for redundancy dismissal (in weeks) after twenty years of continuous employment? Normalised (1/2)
 - Severance pay for redundancy dismissal as number of months for which full wages are payable after continuous employment of twenty years? Normalised (1/2)

The *temporary employment regulation index* is equal to the simple average of the following variables:

- Fixed-term contracts are only allowed for fixed-term tasks?
- What is the maximum duration of fixed-term contracts (in months)? Normalised

Finally, the *overall employment regulation index* is the simple average of the regular and temporary employment indices.

Source: Pierre and Scarpetta (2004: 11 & 37)

Non-standard employment represented 29% of all employment in 2002, but in the formal sector, part-time jobs comprised only 1% of all waged employment. While low levels of part-

time waged employment are characteristic of many transition countries (the corresponding ratios were 1.9% in the Slovak Republic, 2.5% in Bulgaria and 3.6% in Hungary), the Serbian levels are particularly low. The evidence available from EU and OECD countries shows that part-time work has enabled women to reconcile domestic duties with paid work and has allowed employers to adjust more flexibly to market fluctuations. But the working conditions of part-time workers are generally significantly worse than those of equivalent full-time workers, and part-timers, most of whom are women, face considerable barriers if they wish to move from part-time to full-time work. In fact, the figures show that, whereas part-time work has been rising for women, this appears to be increasingly against their will.²¹

Similarly, work under temporary or fixed-term contracts is at a fairly insignificant level, accounting for only 5% of all employment in 2002.²² Shift work exists in many of the large industrial public companies, and there is a significant level of weekend work, but there is comparatively little evening work. There is seasonal work in the agricultural industry, much of it informal, but otherwise fixed-term contracts and temporary work are rare. When employers do recruit people on temporary contracts, it appears to be more to avoid the requirements of the law in respect of regular employment (see table 2) than a matter of work organisation. In the context of restructuring, however, the use of flexible forms of work can be an alternative to dismissals.

3.1.2. The informal labour market

The Serbian labour market, including both the formal and informal sectors, shows a relatively high level of flexibility, as measured by flows between employment, unemployment and inactivity, but this average performance is primarily driven by the very flexible informal sector. Indeed, one of the most important and striking features of Serbia's labour market is a very high share of employment in the informal sector (see section 2.2).

The informal sector generates the majority of the movements between employment, unemployment and inactivity – it absorbs redundant workers, it employs those who were previously inactive, and it exhibits a high probability of job loss. Only 63% of those employed in the informal sector retained the same status one year later, compared to 82% in the formal sector. Not only is the informal sector more flexible in itself, but annual labour flows between the formal and informal sectors are also significant. Among those workers from the formal sector who remained employed in 2003, around 18% were absorbed by the informal sector. In contrast, over a third of the workers in the informal sector were integrated into the formal sector in the space of a year.²³

The probability of finding a job in Serbia is relatively high by the standards of transition economies. According to LSMS data, almost half of the unemployed found a job within a year. However, over half of those who found a job within the year entered the informal sector. Further, flows from inactivity to employment are also high, but the majority of these are movements absorbed by the informal economy.²⁴

21. ILO 2003: 42.

22. Emmerich 2003:26; World Bank 2004: 95.

23. World Bank 2004: 101.

24. World Bank 2004: 102.

So Serbia's labour market seems to have a relatively high level of flexibility, as measured by flows between employment, unemployment and inactivity. However, a disproportionate share of these flows is generated in the informal sector.²⁵

The tax reform of 2001, which lowered labour taxes and contribution rates while broadening the base for such taxes, left Serbia with labour tax and contribution rates that are in line with regional averages. These initial reforms have, however, not yet brought a visible reduction in informal employment. The employers' organisation claims that the competition for workers is unfair because those working in the informal economy earn more than those in the formal sector, who have to pay income tax. So Serbia may need even stronger encouragement to formalise.

Some people who are registered as unemployed actually work in the informal sector, and informal employment is encouraged by the fact that anyone so registered gains access to a range of social benefits such as free health insurance. This access is tantamount to a subsidy to the informal sector, as it frees informal employers from the need to offer the same benefits as formal entrepreneurs, who regularly register their employees and pay their contributions. Better administrative coverage – primarily of the self-employed and farmers – and more intensive checks that recipients of social benefits are in fact unemployed would reduce the problem.²⁶ Measures of this kind would, in theory, also help to reach out to a higher proportion of women workers.

Assessment and recommendations

Serbia has made significant progress recently in reforming its employment protection legislation. The new Labour Law simplified the previous regulations and introduced greater flexibility of employment patterns, while offering a number of rights for employees. The recent shift away from legal employment protection towards an activation of labour market policies is a positive move, but needs to be complemented by well-targeted, effective and affordable programmes of financial and active support for people who lose their job. Such programmes can protect redundant workers while speeding up and smoothing the process of labour reallocation (see next sections on active and passive labour market policies).

Recommendations:

- *It seems appropriate to promote greater use of flexible forms of work in the formal sector, so as to facilitate more flexible work organisation patterns as an alternative to dismissals (fixed-term and temporary contracts). Flexible forms of employment could also be promoted to allow workers to reconcile work and family obligations.*
- *Flexible forms of work should, however, be better protected. In particular, these forms of work should be introduced in ways that will not place women at a disadvantage in the labour market, so that the existing gender inequalities in pay and employment patterns are not worsened as a result.*
- *Levels and forms of participation in the informal economy differ according to workers' sex and ethnic origin. Hence any strategy to reduce the proportion of*

25. World Bank 2004: 104.

26. World Bank 2004: 110-111.

informal work in overall employment must be based on an examination of, and must address, the gender patterns of informal work and the reasons for these.

- *Formalisation could be promoted by stronger and non-selective enforcement of tax collection arrangements, through reform of the tax administration, a better IT system and changes in the inspection system.*
- *Particular attention should be paid to ways of bringing existing Roma-owned small businesses into the formal sector.*

3.2. Passive labour market policies

Total spending on unemployment benefits has been increasing, both in absolute terms and as a proportion of GDP. In 2003, 7.9 billion dinars (including 2.3 billion to pay social security contributions for the unemployed) was spent on unemployment benefits, which represents 0.72% of GDP, up from 0.21% in 2000. In 2004, 7.4 billion dinars was spent on 76,584 beneficiaries. This means that the average per recipient was 96,626 dinars (around €1,324) per year in benefits.

9.6% of the registered unemployed receive unemployment benefits. Although, this number is low by international standards, it has risen steadily since 1997, when only 2.9% were in receipt of unemployment benefits. As the ratio of registered unemployed to unemployed according to the LFS has also increased steadily, it is possible that unemployment benefits are an additional incentive to register as unemployed, even if the person concerned is not looking for work.

The limited coverage of benefits is a result of a deliberate decision on the characteristics of the system. Benefits are paid for only three months if the period of employment was shorter than 5 years. The maximum duration is two years, for older workers (over 55 years of age) who have contributed for more than 25 years (or more than 20 years if they are men older than 61 or women over 56), a measure which encourages de facto early retirement.²⁷ For workers with less than 20 years of insurance, benefit is paid for nine months or less. Since most of the jobless are long-term unemployed, only a small proportion of them is eligible for benefits. The replacement rate is at a normal level by European standards: 60% of the last salary for the first 6 months and 50% for the remaining period. However, there is a delay of approximately 6 months before payment of unemployment benefits begins. This means that unemployed workers are without any income after losing their jobs, so that they are forced to accept the first job they can get. This reduces the efficiency of labour allocation, given that search and information costs are not zero. The short duration of unemployment income support (and the relatively small number of recipients) make it unlikely that the structure of unemployment benefits discourages workers from taking up employment at the lower end of the wage scale.

In March 2002, the Ministry of Labour and Employment and the Labour Market Bureau (now the National Employment Service) issued a “Social Programme” specifying the procedures for handling surplus workers during the restructuring of enterprises. Although not legally binding, the document was officially endorsed by the government and included step-by-step measures to smooth the staff reduction process at enterprises experiencing restructuring, privatisation,

27. But the longer duration of benefits for older workers is justified by severe discrimination against them in relation to re-employment, access to training or any other active labour market programmes.

bankruptcy or liquidation. The Social Programme is targeted at employees who lose their jobs for these reasons. They have a legal right to pecuniary compensation, old-age pension insurance and health care, subject to ad hoc government approval.²⁸ In 2003, 32 companies used funds from this programme, a high figure compared to other countries, where similar programmes focus only on a handful of particularly difficult cases (e.g. in single-enterprise communities). Severance payments under this programme tend to exceed substantially the minimum specified in the Labour Law. If an employer has no funds for severance pay, there is a possibility of using the funds earmarked by the government for this purpose. In 2003, a total of 5.4 billion dinars (equivalent to 0.5% of GDP) was spent under the programme. In 2004 2.16 billion dinars was spent on 10,703 workers made redundant. This amounts to 202,000 dinars per worker, or more than three times as much as was disbursed for ordinary unemployment benefits. For 2005 this amount was expected to more than double to 6.1 billion dinars, not much less than was due to be spent on ordinary unemployment benefits. By the middle of the year some 13,000 laid-off workers had received such compensation, which is less than a quarter of the number of people receiving unemployment benefits. Firms are obliged to obtain the opinion of the representative trade union about the programme they are offering, but are not obliged to act on this.²⁹

In the initial phase of transition, when structural reforms might result in mass layoffs, there is a rationale for a government Social Programme. However, in EU states and other countries in the region, such efforts are usually accompanied by well-funded activities to assist the unemployed in a reasonably balanced way. In Serbia, the Social Programme is not combined with an efficient programme of financial or other direct support to unemployed people. This is a further manifestation of the contrast between the protection afforded to those with jobs in state industries (“insiders”) and the comparative lack of opportunities for people without work (“outsiders”).³⁰ Preparation of a “Programme for Unemployed Persons (Redundant Workers) Laid off in the Process of Enterprise Restructuring” is under way. It will replace the current Social Programme and allows for various active measures to encourage employment, through business start-ups or employment with another employer, as well as encouraging various types of associations for workers who have been laid off.

Substantial resources for this programme can only be justified if it is redesigned to make it fiscally viable and to offer clear incentives for the firms which receive support under the programme to broaden rather than delay restructuring. The resources saved could instead be used to achieve a better balance of resources and unemployment benefits commitments, as well as for promising ALMPs.³¹

After the expiry of unemployment benefits, unemployed workers with few financial resources may have access to social assistance. Spending on social assistance in Serbia is relatively modest by international and regional standards, representing about 1.7% of GDP in 2003. Assistance to low-income families is well targeted at the poor according to the World Bank,³²

28. A surplus employee can choose one of three options: (i) a lump sum monetary compensation amounting to 10 times average earnings in the economy (alternatively, the benefit amounts to around US\$100 per year of employment); (ii) a special training and retraining programme; and (iii) self-employment assistance, which, amongst other assistance, includes ‘incentive funds’ amounting to about US\$500. In 2003, 36,900 individuals benefited from the programme, of whom 97.7% opted for cash payment, 2.2% participated in training programmes, and 0.1% received self-employment assistance.

29. Emmerich 2003: 26; World Bank 2004: 108; ETF 2005: 30.

30. ETF 2005: 31.

31. World Bank 2004: 108-109.

32. World Bank 2003.

but it only represents about a quarter of total spending on social assistance, the bulk of which is spent on child benefits also supposed to be received only by families whose household income is less than a third of the average. Since the targeting of this measure was less than perfect, it allowed families with higher incomes to receive benefits too. The government took measures to reduce abuse of the measures, and the number of recipients fell by a third between 2002 and 2003. The low level of income support and its increasingly careful targeting at the poor make it unlikely that it constitutes a significant disincentive to the acceptance of low-paid jobs.

Recommendations:

- *The overall structure of the unemployment benefit system is well designed and should not be changed. The system combines an appropriate level of benefits (which allow the unemployed to search for a new job without losing their income) with a relatively short duration (thus giving an incentive to take up new work).*
- *However, the 6-month delay before unemployment benefits start to be paid jeopardises the whole purpose of the benefit system, namely to guarantee appropriate income support while an unemployed person is looking for a new job.*
- *Spending on social programmes should be reduced, and the savings used to make sure that unemployment benefits are indeed paid from the day the claim arises. The current practice of delayed payment reduces the efficiency of labour allocation and deprives would-be recipients of lawful means of subsistence.*

3.3. Human resources development and active labour market policies

3.3.1. Human resources development, education and training

Employees' fate on the labour market varies greatly in Serbia, according to level of education. Persons who completed only secondary education are the worst off, recording the highest unemployment rates, and earning wages not much higher than those of workers who received only primary education. The latter have very low unemployment rates, but are the least likely to be still employed one year later, and the numbers of them who give up job-seeking altogether are very high. People with a tertiary education, however, do well when they join the labour market.

As Serbia's labour market becomes more flexible and dynamic, those who have been out of work for some time will be at an increasing disadvantage, with their work experience becoming less marketable. Similarly, a sizeable group of people on the labour market is experiencing difficulty in finding stable employment, so is unable to acquire good work experience and new skills.

The reform of Serbia's education and training system will thus be crucial to ensuring the creation of more and better jobs. This will require Serbia to invest in significant amounts of high quality training, as well as retraining.

Initial education and training

Serbia's average educational level has been improving. In the past ten years, illiteracy levels decreased and educational attainment improved among the younger age groups. However, the proportion of persons highly educated has remained stable, and has even decreased for men. Serbia thus follows the pattern of the Central European countries that have shown improvements in the development of their intermediate-level skills rather than of their high-level ones.³³ There are no significant differences between men and women in relation to primary and secondary education, but boys do tend to leave secondary school and enter the labour market earlier than girls.³⁴

Box 3: The education system in Serbia

Compulsory education lasts 8 years from age 7 to 15. At 15, those who have decided to continue their schooling (around 93% of those ending primary education according to calculations made by the Ministry of Education and Sports) have the choice between:

- A 4-year grammar school course leading to the Matura, the university entrance qualification (19% of all secondary education enrolments in 2003/04)
- A 4-year vocational education course, also leading to a qualification for university entrance (58% of all secondary education enrolments in 2003/04)
- A 3-year vocational education course (23% of all secondary education enrolments in 2003/04)

The secondary education system caters for over 300,000 students, who are educated in:

- 127 schools offering general education ("gymnasium"),
- 333 vocational schools, which offer a choice of around 312 profiles grouped in 15 fields,
- 33 art schools,
- 34 vocational schools for children with special needs.

Source: ETF 2005: 22

But Serbia faces problems where the quality of its education is concerned. The outdated education system and its lack of adaptability to the changing needs of the market and society is broadly recognised as an impediment to the development of a dynamic, entrepreneurial, adaptable and well-educated/trained labour force in Serbia. The problem starts with inadequate quality and the need for modernisation of primary education.³⁵ However, the main problem lies with the secondary education system currently structured around educational profiles and subjects appropriate to an economy based on waged employment in large enterprises. Vocational schools are under-funded, have old equipment and provide narrow and early specialisation, and their teachers generally lack up-to-date technical and teaching skills. Furthermore, enrolment in secondary education is centrally planned, with places and profiles predetermined at each school which do not correspond to either students' preferences or the needs of the labour market.³⁶ The content and quality of the skills and knowledge that the education system provides to young people is constantly criticised by employers. Lack of problem-solving skills and ability to deal with real-life situations, lack of entrepreneurship, excessive theoretical knowledge and inadequate practical technical skills, combined with a limited capacity to apply given techniques, are often included in this criticism. Finally, the

33. ETF 2005: 20-21.

34. MoLESA, 2005: 53.

35. ETF 2005: 21.

36. ETF 2005: 22; World Bank 2004: 120.

performance of the universities is also weak: despite increased enrolment in higher education during recent years, the number of degrees awarded has stagnated.³⁷

Adult education and training

The shortcomings of the formal education and training system are compounded by deficiencies in the supply of quality adult education and training opportunities. Former Yugoslavia traditionally had a well developed system of adult education and further training, both within the formal education system and through the network of workers', people's and open universities, while on-the-job training was quite well-developed. However, over the last 10-15 years, this infrastructure has collapsed. And there is now a growing variety of training providers, including formal education institutions (secondary vocational schools and universities), chambers of commerce, NGOs, private training providers, SME agencies, etc. However, the quantity of training delivered is quite limited, in view of the needs of the adult population, and its scope is quite narrow. There is also a general lack of quality training provision for redundant and unemployed people.³⁸ In principle, the active labour market programmes financed by the National Employment Service (NES) provide a range of training and retraining programmes for these groups, but in practice these are not available.

The NES programmes for retraining unemployed persons have been shrinking over the years. Although the number of people scheduled to be retrained picked up in 2002 and 2003, the number of people actually trained did not match expectations (see table 3). The programmes include IT and foreign language training (majority of participants), specific job training at the request of employers (tram and trolleybus drivers, tailors, butchers, carpenters, etc.) and primary-level education programmes for adults (46 unemployed persons were trained in 2003).

Table 3: Enrolment in NES retraining programmes for the unemployed

Year	Planned enrolment	Actual enrolment	Participation rate (%)
1997	10,000	8,834	88.3
1998	10,000	3,801	38.0
1999	7,340	1,711	23.3
2000	3,900	2,679	68.7
2001	3,900	2,043	52.4
2002	11,300	7,028	62.2
2003	15,077	8,614	57.1
2004	N/A	1,120	

Note: 58% of all participants in training programmes are women, and on "motivation-activation" training courses, the figure is 63%, which is significantly higher than the proportion of all the unemployed who are female (54%).

Source: NES

The reason for the decline in training programmes is the diminishing interest of prospective employers in taking on retrained unemployed persons. This is the case firstly because the unfavourable economic environment is not conducive to job creation, and, secondly because of the poor quality of the training due to the low level of funding available to the NES to conduct these programmes. The demand for specific training emanating directly from employers is also declining, reflecting slow economic activity. As a result, the NES offers training based on estimated labour market needs, but the retrained persons are not provided

37. ETF 2005: 23.

38. ETF 2005: 23.

with a job after completing their training, and remain on the NES registers, although their skill level has been raised.

Today, on-the-job training is at a low level in Serbia. Firms are investing too little in training, given the need to speed up the transition. According to the World Bank Productivity and Investment Climate Survey, the situation may have deteriorated recently. The proportion of companies in Serbia offering formal (beyond on-the-job) training to their employees fell from 56% in 2001 to 31% in 2003, with a contrast between small companies (only 21% of which offered such training) and medium-sized and large companies (41% of which offered training).³⁹ SMEs and people involved in the informal sector have virtually no training opportunities.

Shortcomings in certification and quality control are a problem for all types of adult education and training. Enterprises that are looking for off-site training for their employees, like the NES when it is looking for sub-contractors for active labour market programmes, have little evidence about the relative quality of what is on offer.

The need for modernisation of the education and training system for both young people and adults is clearly expressed by all concerned. It is recognised in the Poverty Reduction Strategy, as well as in the draft National Employment Strategy. This general recognition of the importance of investing in human capital is also reflected in the growth of the education budget's share of GDP over the last few years, increasing from 2.7% in 2000 to 3.4% in 2003, and forecast to reach 3.8% in 2005 and 4% in 2006 – but it has not yet reached the EU average of 5% of GDP. It should, however, also be mentioned that the largest portion of education expenditure (around 75%) is devoted to wages, leaving a small part of the budget for improvements in infrastructure and in modernisation of the education system. In addition to the education budget, the National Employment Service also invests in training programmes for the unemployed, but the budgets are quite low (see next section). Private input into education is not measured.

While debates have continued on the strategic directions of education policy, the institutional setting has been modernised and legislative work has been done; a number of pilot activities have also been launched (in particular through donor funds), certainly developing local capacity for change and modernisation. These pilot activities relate to:⁴⁰

- Modernisation of syllabuses in 6 sectors (agriculture, food production and processing, mechanical engineering, electricity, building and construction, health), so as to make them more relevant to the needs of a changing labour market;
- Introduction of new assessment methods;
- Teacher training activities relating to implementation of the new syllabuses;
- Capacity building to bring schools into line with employers' needs through "Skill Needs Analyses";
- Introduction of entrepreneurship modules to the curriculum;

39. World Bank 2004: 122-123.

40. ETF 2005: 41.

- Capacity building to enable stakeholders to understand the challenges of skills development;
- Capacity building and transfer of know-how relating to the development of short courses for adults (mainly unemployed and redundant workers);
- Modernisation of the training infrastructure for adults through the transformation of secondary vocational schools into adult training centres.

Assessment

Serbia is still in the early stages of setting up an education and training system capable of furthering the economic and social development of the country. All the work done to date demonstrates that Serbia is quite advanced in terms of its conceptual thinking, terminological clarity and overall grasp of the various components of a modern VET system. The question is the extent to which the implementation of ambitious reforms is feasible in the current context, taking into account the limited capacity for implementation (at both national level and where education and training providers are concerned) and the limited funds available.⁴¹

Urgent attention is needed by those with low skill levels⁴² who are already on the labour market and have few prospects. An estimated 3 million adults already on the labour market have not completed secondary education, but need to do so to get better jobs and become more productive (World Bank 2004: 124). In the field of adult learning the MoLESA could be expected to play a more important role in policy development and in the definition of future action. The flexibility of the present labour force and an increase in the employability of jobless persons are recognised by the National Employment Strategy under development to have priority for employment support. A clear formulation of the Ministry's expectations in terms of achieving the objectives set, as well as a declaration of the responsibilities it wishes to undertake, would provide important input to the discussions.⁴³

The concept of lifelong learning is accepted in Serbia, and a lot of the action proposed in policy papers provides opportunities for its realisation.⁴⁴ One important element of lifelong learning is training provided by enterprises, currently confined to a relatively small number of larger firms. A particular challenge is that of providing training and skills upgrading for people in small and medium-sized enterprises, especially in the informal sector. Given the size of the informal sector in Serbia, this is a matter of particular concern. A culture of enterprise training needs to be developed to ensure that firms are willing to participate. This is a task for the government. In the case of SMEs, some public investment will almost certainly be necessary to create a demand for training, so that an appropriate training market for SMEs can develop. Any programme of training support should start on a small scale and be carefully evaluated.⁴⁵

41. ETF 2005: 41.

42. Including over 12,000 people between the ages of 15 and 35 who, according to the 2002 census, were completely illiterate.

43. ETF 2005: 42.

44. ETF 2005: 41-42.

45. World Bank 2004: 126.

The scope for co-operation between education and business is widely emphasised, and proposals are put forward as to how to ensure that it happens. It also seems that an area for co-operation is now open, and goodwill is present between various partners (ministries and government agencies, employers' associations and trade unions, chambers of economy, local government, etc), despite the fact that the stakeholders' capacity is limited. The two main partners in skills development among the present and future labour force, namely the MoES and MoLESA, are also open to closer co-operation. However, the institutions and processes that could ensure this co-operation are weak or non-existent.⁴⁶

Finally, a match has to be ensured between the availability of resources and the scope of the reforms. The low budget of the Ministry of Education and the funds available to the NES for training are far from sufficient in view of the skills needs of the population and the ambitions of the reform. Given the resource bottleneck, Serbia needs a simple and cheap VET system on the lines of the Slovenian model. At the same time, more funds will have to be obtained from the beneficiaries (enterprises and individuals). Innovative funding mechanisms that ensure both adequacy of funds and their efficient allocation need to be explored. The government could consider whether some kind of training levy would be both appropriate and fiscally prudent (typical amounts are 1-2% of payroll costs)^{47,48}.

Recommendations:

- *A sound institutional infrastructure needs to be set up for further development and for implementation of reforms facilitating co-operation and exchanges between business and the education system.*⁴⁹
- *Adult training needs to be moved up the government's agenda. The institutional framework needs to be developed and adult training needs to be covered by relevant legislation. While the "policy for the development of adult education" paper provides a good starting point for future developments, some immediate action is necessary: priority needs to be given to the provision of incentives to enterprises for training, the design and delivery of short training courses for unemployed persons, redundant workers or employees, covering both core skills and technical competences, and the accreditation of training provision so as to ensure its quality.*
- *Reliable ways of measuring educational quality should be developed to address the problem of the quality of secondary education. The EU-funded CARDS 03 VET Reform programme has already organised some processes on a trial basis, but these need to be evaluated, adapted if appropriate and spread throughout the system.*
- *Specific measures need to be put in place to enable women and men to benefit from the (pilot) programmes on an equal footing. For example, the pilot activity on capacity building and know-how transfers relating to the development of short courses for adults should also target inactive workers. This would have significant gender implications, as women's inactivity rate is considerably higher than men's. The*

46. ETF 2005: 41-42.

47. While an overall increase in training is clearly desirable, the government should design the scheme so as to create the greatest incentives for training for workers with the fewest skills, as companies tend to be more willing to invest in training for managers. The Singapore Skills Development Fund offers such incentives.

48. World Bank 2004: 126; ETF 2005: 41-42.

49. For details, see ETF report, p. 46-47.

module on entrepreneurship development should spotlight and address the higher barriers that women face in starting up or scaling up a business. These difficulties are associated with a combination of factors, such as women's relative lack of opportunities to obtain relevant information and contacts, their more limited experience of managerial work, their more limited capital assets, since property is often registered in their husbands' name, restricting their access to conventional credit schemes, their lack of support facilities for children and/or other dependent family members and their lack of self-confidence.

3.3.2. Active labour market policies

The Law on Employment and Unemployment Insurance (2003) recognises the importance of active labour market policies in solving the unemployment problem and has as its core objective the creation of conditions motivating the unemployed to become active job-seekers. The main target groups are first-time job-seekers, redundant workers, refugees and displaced persons, ethnic minorities, the long-term unemployed and unemployed persons aged over 50.⁵⁰ This law came into force on 23 July 2003.

The key elements of active labour market policy outlined in the National Employment Strategy 2005-2010 are the following:⁵¹

- *Mediation and support for job-seekers*, involving many NES activities (employment fairs, individual employment plans, job-seekers' clubs,⁵² job broking and activation);
- *Improving employability*: besides the retraining and further training measures already mentioned in the preceding section, traineeship programmes (subsidies for the employment as a trainee of an unemployed person with university, college or secondary-level education), programmes for acquiring formal qualifications and basic education for adults are provided. The NES also promotes the acquisition of special skills needed to start and run a small business.
- *Promotion of entrepreneurship and direct job creation*: there are two self-employment programmes – one targeting new entrants into the labour market and the other targeting the unemployed; a number of business centres have been established to provide support to potential new entrepreneurs: project design, basic training, and technical, legal and financial support during the early years of their business. They were designed in co-operation with the national Agency for Development of Small and Medium-Sized Enterprises and Entrepreneurship.
- *Enhancement of the flexibility of both employers and their employees*: there are various programmes that support the creation of new employment with a view to increased flexibility and competitiveness. In cases of restructuring, for example, workers have to adapt their skills to new technologies or new work organisation, so they need broader

50. MoLESA 2003.

51. MoLESA 2005a.

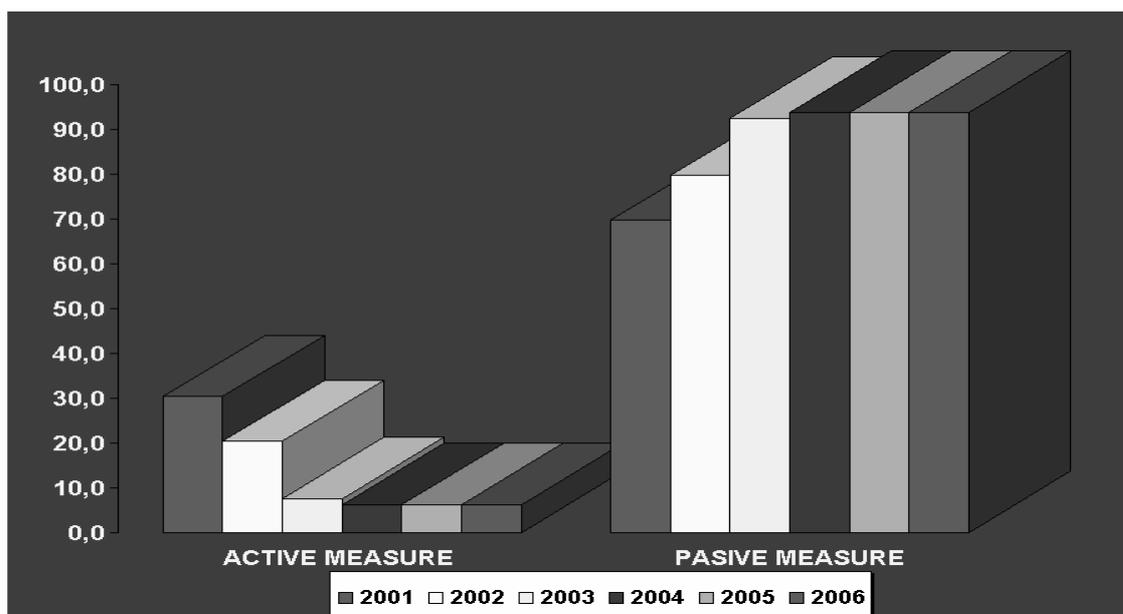
52. In these clubs, the unemployed will be taught how to present themselves, interview techniques, how to write CVs, where to find information about jobs and how to acquire practical experience of job-seeking. The clubs are to be organised within the National Employment Service. The training will last 3 weeks, but in some cases up to 6 weeks. By the end of 2003, a programme had been prepared and training carried out for club leaders and their deputies in 5 branches which were to serve as pilot regions.

access to training and/or education. The Social Programme of the Ministry of Labour and Employment also includes measures which have their place in this context (internal flexibility, provision of office space to surplus workers so that they can start their own businesses, outsourcing).

- *Support for professional and geographical mobility:* In 2003, the NES helped to finance regional programmes to stimulate local economic development. Depending on the specific economic situation of the region, the structure of its unemployment and its comparative advantages, the NES branches/services implemented employment programmes in collaboration with local administrative bodies, regional Chambers of Trade and Industry and other entities from the business world or elsewhere. Other measures were to include the establishment of a unified information system to monitor the labour market situation, job vacancy announcements via a unified website and regular publication of the same distributed all over Serbia, making employment in smaller towns more attractive by covering part of accommodation expenses (or commuting expenses) and offering employment to spouses.
- *Promotion of equal opportunities:* Several programmes are available for people with disabilities, involving, for example, the payment of wage subsidies or programmes for co-financing new jobs.⁵³ Within the “Decade of Roma Inclusion 2005-2015” programme, the Ministry of Labour and Employment has prepared a Roma Employment Action Plan, which will be integrated into the National Employment Strategy, covering issues relating to the employment and employability of Roma. For older workers, activities are to be directed to enhancing their chances of finding new jobs, but also to creating conditions for their subsequent gradual retirement. Specific measures are also included for young people, such as different forms of advanced training and career guidance and counselling at all educational levels. The National Employment Strategy for 2005-2010 includes support action to promote gender equality in employment, as part of its component aimed at strengthening social cohesion in the labour market. It acknowledges the significant gender gaps in labour force participation, and in employment and unemployment rates. It highlights the differences between men and women in the number of hours devoted to paid work and household tasks. It suggests introducing flexible forms of employment for women and the provision of affordable day-care services for children under seven, and it identifies single mothers and women with low educational attainments as priority target groups. It also mentions the need for effective mechanisms to prevent or remedy discriminatory practices and behaviour in the labour market. At present, however, there are no specific programmes for particularly disadvantaged categories of women, or for equal employment opportunities for women and men.

53. Active labour market programmes for people with disabilities are:

- financial support for investment programmes involving the setting up of enterprises and shops by persons with disabilities, or for equipping new workplaces to meet the special needs of workers with disabilities;
- subsidies to help pay the wages of people with disabilities for one year: up to 80% of the average monthly wage of employees in the Republic or in municipalities or cities is paid, provided that this is of benefit to them.



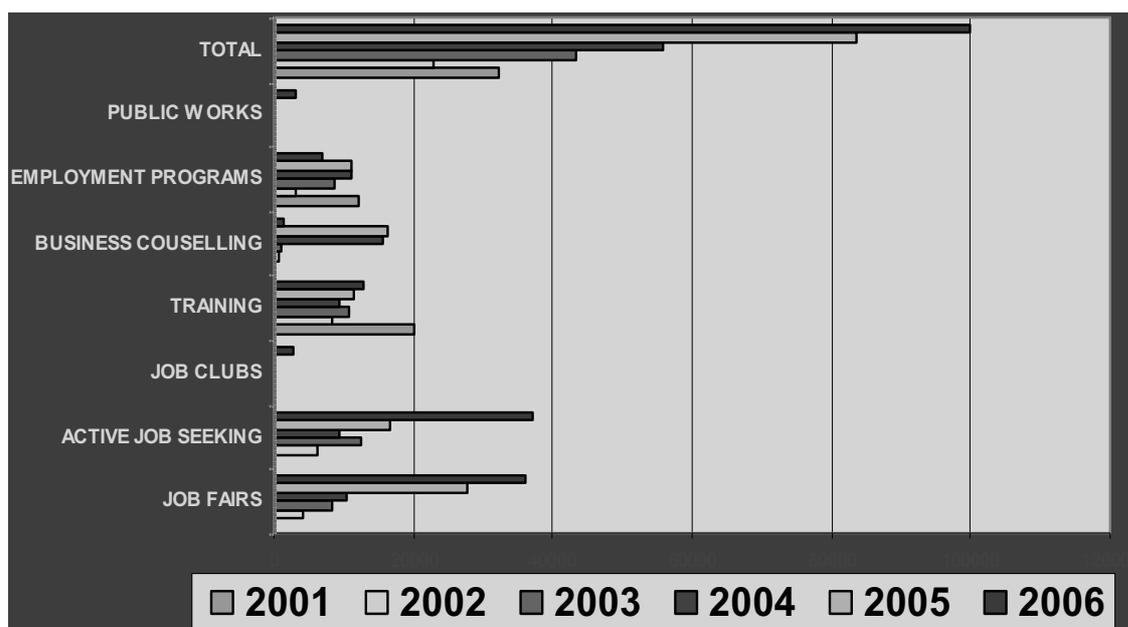
Source: ETF 2005: 33

In 2006, 0.12% of GDP was spent on active labour market policies (0.07% by the NES and 0.05% through self-employment grants), as against 0.9% at EU level. Expenditure on the Social Programme in 2003 was 5.4 billion dinars, as against only 881 million dinars for active measures. Despite the fact that the number of persons covered by the passive measures did not exceed 10% of the total number of unemployed persons, 64% of the NES annual budget for 2005 was spent on passive measures (unemployment benefits), i.e. 84.4%, when the benefits paid to internally displaced persons from Kosovo and Metohija are taken into account. The Serbian budget is modest, and the share of active measures in the overall labour market policies budget has been falling continuously since 2000 – from 42% to 10% in 2003 (see graph below), 8.4% in 2004 and 6.1% in 2006. But in 2003 and 2004, the budget for active measures was underspent (realised expenditure was 73% and 46% of planned expenditure respectively). Further, the balance of expenditure between passive and active measures is not very conducive to support for an activation policy.⁵⁴

The number of unemployed persons benefiting from active measures has been increasing over the last three years (see graph below). But over the years 2001-2004, an average of 37,355 unemployed persons per year (representing about 4% of all the unemployed) benefited from ALMPs. In 2005, 83,516 persons benefited from active labour market measures, i.e. 9.4% of the average number of unemployed persons that year. In EU countries, ALMPs cover on average 30% of all the unemployed. The Ministry of Labour, Employment and Social Affairs has estimated that, in order to achieve coverage of 15% by coherent active measures, the cost would be 2.5 billion dinars a year, two and a half times more than is currently spent.⁵⁵ It is to be noted that, in 2005, for the first time since 2000, the percentage of unemployment benefit recipients was 7.1%, so a lower figure than the percentage of beneficiaries from active labour market measures.

54. ETF 2005: 34-35.

55. MoLESA 2004: 15.



Note: 52% of participants in ALMPs are women (which is 2% less than their share of unemployment)
 Source: NES 2006

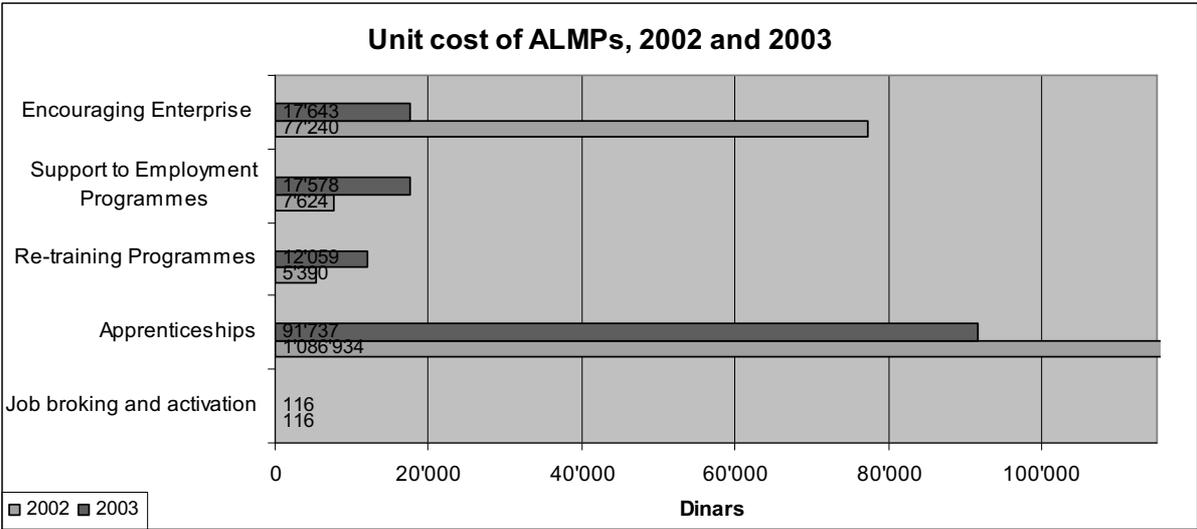
Assessment

By themselves, labour market policies cannot generate jobs. A sufficiently strong pull from the demand side is a necessary condition. Once an upswing is under way, labour market policies play an important role in securing a supply of qualified labour, avoiding bottlenecks and easing employment flows.

Experience with ALMPs during the transition has varied greatly. Counselling and job search assistance have often been effective in helping workers who have been displaced by frictional unemployment to find jobs at relatively low unit costs. General training programmes, including on-the-job and/or institutional training, have had a mixed, but generally positive, record in dealing with structural unemployment. Net impact evaluations in Poland, Czech Republic and Bulgaria, for example, have showed reasonably good results. Programmes focused on providing subsidised loans to redundant workers have often proved inefficient, but there is evidence that self-employment assistance programmes have had a positive impact for a limited group of people.

In Serbia, a large share of a small budget is spent on *apprenticeship/traineeship programmes*, as well as on *wage subsidies* to encourage job creation. These programmes have high unit costs (see graph below) and have not been evaluated; they do, however, have a direct impact on job creation and promote social inclusion. Interest in apprenticeship programmes is diminishing, and participation has fallen dramatically (see graph above). This is because (a) financial support for the employment of trainees has been reduced, making it far less attractive to both employers and trainees; (b) the employer is now obliged to engage a person on an open-ended basis right from the start, while the trainee must either stay in the job at least for the whole period of the training or reimburse the training costs. These reforms were introduced because 46% of participants did not secure employment at the end of the programme. Of those that did, some (possibly most) would have done so even without subsidies. The apprenticeship programme seems in fact to make up for the inadequacies in the pre-qualification training of a small number of professions, mainly in the medical and legal

spheres. Its very high unit cost (see graph below) and poor results raise real questions about its justification, as currently designed to cover both work experience and job subsidies in specific occupations.⁵⁶



Source: NES 2005

Retraining measures are allocated a large budget (the third highest after apprenticeships and job creation) and cover a relatively large number of unemployed, so unit costs are much lower than for the other measures (see graph above). This measure has proved effective in tackling long-term unemployment, so it should be retained.

Table 4: Unit cost of the main ALMPs, 2002 – 2004 (dinars)

	2002	2003	2004
Job broking and activation	116	116	41
Training	126,724	39,231	18,712
Entrepreneurship	42,061	17,603	17,891

Source: NES 2005

Large amounts are also being spent on promoting *enterprise development* (self-employment programmes and entrepreneurial centres). Financial support for self-employment for unemployed persons amounts to US\$1,754 for a beneficiary of financial compensation and US\$3,158 for a redundant worker. This is 3.5 times more than in the Czech Republic and 3.1 times more than in Hungary.⁵⁷ A majority of beneficiaries of the self-employment programmes are persons with secondary-level education (33%), followed by persons with three-year vocational training qualifications (30%), unskilled workers (20%) and those with university-level education (2.7%), which is typical for countries in transition. Only 41% of all participants in entrepreneurial development education programmes are women, and the same percentage makes use of self-employment subsidies.

The extremely limited financial resources at the disposal of the NES are a major obstacle to a greater contribution by it to the implementation of the National Strategy for the Development of Small and Medium-Sized Enterprises. But this begs the question of how much the NES should be involved in entrepreneurship programmes, given its limited resources. Subsidies for

56. ETF 2005: 34.
57. MoLESA 2003.

self-employment are costly, as shown by the high unit cost of such a measure (see graph above). Evaluations of self-employment assistance programmes in Central Europe have found “significant dead weight” in their operations – those persons who have the considerable qualities to succeed through such programmes would probably have achieved labour-market success without them.⁵⁸ Business centres have been developing, catering for over 15,500 unemployed in 2004 with very low costs. The number of participants in these programmes was multiplied by 6 between 2003 and 2004. This is a service the NES can concentrate on in its current resource situation.

Finally, *job mediation* is known to be very efficient and requires only modest resources. Job mediation has developed fairly recently in Serbia. In the year 2003, 279 Employment Fairs were held, involving 8,207 unemployed. These fairs reflect the shift of the NES towards employers and their needs. An important factor in the organising of such fairs is the inclusion of local self-government, thus increasing the likelihood of a more rapid resolution of the unemployment problem in accordance with the needs of the region. Most participants (47%) were young, aged up to 30, most of them seeking their first job (55% of participants), while 39% of participants were long-term job-seekers. The problem with Employment Fairs is their bias toward better-educated, better-off young unemployed persons, with elitism being reinforced as a result.

Measures to “activate” unemployed persons consisted of over 1,100 training programmes held in 2003, with 12,362 persons trained, of whom 70% were women. Participants were mostly first-time job-seekers (57%). Measures are also increasingly individualised, thanks to the establishment of individual employment plans and the profiling of the unemployed. Five job clubs have been opened, and it was planned to open at least another 10 in 2006. The first evaluations show that the effects of these measures are satisfactory and that they have produced very good results relative to the invested resources and fixed expenditures, and in some cases the effect on employment was as good as had been achieved through more expensive measures.

While intensive assistance with individualised services can be very useful for job-seekers (see for example the Australian model), it is currently beyond the means of the Serbian employment services. The NES has one of the heaviest workloads of all the public services in the region. In EU countries, caseloads may be between approximately 150 and 400, but the figure is more than 2,000 in Serbia. In 2003, around 250,000 people joined the unemployment register, but the job activation programme only covered about 21,000 people (less than 10%), and over 8,000 of these participated in job fairs, which are more accurately classified as job-broking events. Thus only around 12,000 (less than 5%) of the registered unemployed benefited from job activation measures in the early stages of their period out of work.

Recommendations:

- *Until now, most ALMPs have been introduced in an ad hoc fashion as a quick response to perceived problems emerging as the reforms progress. With the adoption of the National Employment Strategy for 2005-2010 and the preparation of the National Action Plan for 2006-2007, this limitation should be overcome. In view of the divergent achievements of various programmes, combined with limited financial and administrative resources, the MoLESA and NES need to set clear objectives for ALMPs*

58. O’Leary 1999: 16.

(e.g. reduction of long-term unemployment, improvements for unemployed persons with low skill levels, inactive women, young people without work experience, vulnerable groups, etc.) so that they can be given priority.

- *Given the tight budget constraints that the country is facing and the lack of evaluation of the actual effectiveness of different (costly) types of ALMPs, active measures could be refocused on cheaper measures covering a larger number of people, and on developing job-seeking skills among the jobless.*
- *The structure and use of active measures do not offer sufficient support to the activation policy. Activation of the unemployed should start from their first contact with the Employment Service. For example, group information sessions⁵⁹ could be introduced for persons registering, as is the case in some other countries in the region. This is a low-unit-cost measure for everyone wishing to register as unemployed, and it would discourage ineligible people. Existing job-search seminars should be extended to anyone who remains unemployed for 3 months or more. For people already on the unemployment register for 9 months, more intensive help should be made available through a mix of measures including job clubs (these will need to be extended considerably beyond 2005) and remotivation seminars helping individuals to re-examine their situation and experience over the preceding 9 months and redefine their career goals. The most expensive active labour market measures, including job training, should be reserved mainly for people unemployed for at least 12 months, or, in the context of public works programmes, for at least two years.*
- *Access to help to become self-employed should be made as easy as possible. To this end, the specific needs and constraints (in terms of time, assets, contacts and experience) of specific groups of workers should be addressed. Co-operation with the Agency for Development of Small and Medium-Sized Enterprises and Entrepreneurship should be further intensified to this end.*
- *Programmes could support the formation of co-operatives by providing training and making access to small loans easier.*
- *Regular evaluations are lacking. It is important to establish a system to monitor and evaluate the effectiveness and efficiency of ALMPs. Performance criteria should also include the capacity of ALMPs to provide equal opportunities to men and women. The beneficiaries of ALMPs should include men and women in proportions reflecting their relative percentages in the claimant population. The EU-funded CARDS '04 Employment Reform Programme, as well as the World Bank/DiFD project, are introducing evaluation methodologies, but it is important for the MoLESA and the NES to ensure ongoing monitoring and evaluation.*

3.4. Employment services

The 1921 Law on Labour Protection introduced the original institution providing employment services, which operated under several different names prior to the creation of the Serbian Labour Market Bureau in 1992. The 2003 Law on Employment and Unemployment Insurance established what is now known as the National Employment Service. A management board

59. The sessions last about 1 hour 30 minutes and cater for about twenty people at a time.

comprising 15 members (government, social partners, unemployed persons' organisations and NES representatives) supervises its work. In addition, a supervisory body of three members has been appointed by the government to oversee operational policy. The administrative structure comprises a central office (9 sectors and 24 departments), two provincial employment services, 30 branch offices at county level, 15 service offices and 135 organisational units organised on a geographical basis. The tasks of NES are defined as follows: job mediation, vocational guidance, implementation of active labour market programmes, unemployment insurance, labour market information and research. NES has a total staff of about 1,670 (excluding Kosovo and Metohija, ETF: 37). With 859,000 jobseekers registered with the service, each employment adviser has a caseload of around 2,000 clients. There is a disproportionate distribution of staff between the central office and the branch and local offices, which are understaffed.

Private employment agencies were first set up in 2004, and there is a need for a start to be made on developing a network of private agencies, with adequate quality control.

A number of job-seekers register in order to gain access to various benefits and rights dependent on registration with the NES, but are de facto employed in the informal economy or not actually looking for a job. Access to health insurance in particular is conditional on registration with the NES. Most of the capacity of NES staff is thus taken up by the payment of benefits and time-consuming administrative tasks, such as the issuing of medical certificates or record-keeping. There is very little time left for mediation or individual job counselling.

Another challenge is a lack of quality indicators, performance management, planning capacity, etc., which hamper further improvement of the performance of the NES. Various internationally-funded programmes are being implemented and will target capacity-building and organisational efficiency at the NES (SIDA, CARDS ...).

These structural obstacles to proper operation of the NES aggravate its lack of financial resources. NES is funded through employers' and employees'⁶⁰ contributions and matching funds from the State budget. All in all, these resources do not suffice to cover operational expenses and passive and active measures. There is a six-month delay in the payment of unemployment benefits.

The IT system is still at the very early stages of development: databases and adequate software to match labour supply and demand are lacking, and poor technology results in a gap in labour market data collection and information. But looking beyond technological and financial problems, there is a need to agree on adequate business processes and a data standard before the IT system can be upgraded and extended.

The NES is still a highly centralised institution, despite recent efforts to promote decentralisation and to give more responsibilities to local agencies. Decentralisation has, however, been placed high on the agenda of the MoLESA. The plan was to start by delegating powers and decision-making capacity, then adequate resources, to local offices. Further steps in this direction were to be taken in 2005, and implementation of active labour market policies was to be among the first tasks to be delegated. It is crucial to the transformation of the NES into a modern employment service for it to respond adequately to the needs of the labour

60. 0.55% from employees' income and a matching amount from employers.

market. This is all the more important as Serbia faces major regional imbalances, and different regions facing different problems should be able to design appropriate employment policies. The existence of regional employment services, like the one in Vojvodina, is positive, but the current system is too rigid to allow regional agencies discretion. Decentralisation of financial resources will also imply that local budgets will have to contribute, and local authorities will have to be more involved in the work of the NES, which may result in more synergies in the implementation of local employment policies.

Despite a generally high level of education amongst staff, there is a need for further training and for a change of mentality, so that staff become able to provide quality services to clients. In particular, training should be provided in job counselling, personal interviews, preparation of individual work plans, dealing with clients from different backgrounds and with different needs, preparing for mass redundancies in cases of restructuring/privatisation, working with employers, analysing local labour market needs, etc. Training for labour mediators should also be designed to dispel entrenched stereotypes and prejudices relating to the skills and competences (or lack thereof) and attitudes of women and men, as well as of members of majority and minority ethnic groups. Particular groups are indeed more likely than others to be put on waiting lists because of these biased assumptions. Biased perceptions of the skills and attitudes of members of disadvantaged groups may also lead to an unfair assessment of their competences, work experience and training needs, thus perpetuating occupational segregation along gender and ethnic lines. If some labour mediators are representatives of these groups, this may help to overcome the problem.⁶¹

It is particularly important to train staff to deliver quality services on an individual basis if the long-term unemployment rate is to be brought down.⁶² Such an increase in the capacity of staff is needed at central level, but even more so at front-line level. Staff should also prepare for the forthcoming decentralisation and the new responsibilities and tasks that it will entail.

Employers have an obligation to register vacancies with the NES, but only an estimated 40% of them do so. In general, relationships between the NES and employers are not very developed. In Novi Sad, for example, only about 60% of employers' needs are satisfied as a result of vacancies registered at the NES. This is of course partly due to the widespread informal economy (see chapter on the informal economy), but also to the lack of capacity at the NES to 1) explore local employment markets; 2) offer adequate services to employers and attract them. Therefore, it will be an important challenge for the NES, and especially its regional and local branches, to adopt a more proactive approach to employers if it is to carry out in full its duties with respect to employers as well. In particular, there is a need for in-depth exploration of local labour markets, i.e. identification of employers and better knowledge of their activities, culture and potential needs for labour. To this end, NES staff need to be specifically trained to fulfil this role.

While it is one of the duties of the NES to be involved in the preparation of mass redundancies/"social plans" in the event of the restructuring/privatisation of large enterprises, it has in practice very little capacity to act efficiently. It lacks human and financial means to carry out far-reaching retraining programmes or programmes of transfers from one enterprise to another of workers who are to be made redundant. Moreover, the NES often lacks

61. ILO 1997.

62. According to the NES (March 2005, CoE-ILO visit to Belgrade), the average time required for a person registered as unemployed to find a new job is 47 months.

information about forthcoming redundancies resulting from privatisation, and is therefore not in a position to be involved ahead of privatisation in preparing redundant workers for change.

Recommendations:

- *In order to fulfil its mission efficiently, the NES should start by “slimming down” the unemployment registers, which are inflated by a large number of persons who are not actively seeking jobs, but have registered for the purpose of obtaining health insurance and other non-employment-related services. Furthermore, adequate legislative amendments should be made so as to remove from the NES’ remit unnecessary tasks such as the processing of medical examinations and the registration of job-seekers for health insurance. All in all, this should enable the NES to increase its capacity to deal with job-seekers in a more efficient and more individualised way, even if resources are not yet provided with a view to a dramatic increase in both staffing and capacity, because of tight budgetary conditions.*
- *Decentralisation should be continued. It is responsibilities and decision-making capacity that need decentralising, so as to improve the capacity of local agencies to react to local circumstances and needs. However, it is important that this be supported by adequate means; it is for instance essential to review the allocation of staff to central offices and front-line/local and regional agencies, where a reinforcement of staffing is needed. The setting-up of local partnerships with local authorities, the social partners and possibly other players, such as NGOs, should also be encouraged during the process of decentralisation.*
- *In order to improve the operation of the NES, it is important to continue the development of output monitoring and performance indicators. This work is under way, with support from external donors, and it should be actively continued. Use of appropriate performance indicators is the key to narrowing the present gender and ethnic imbalances in labour market outcomes. Indicators that measure the success of an employment service office solely on the basis of the number of job applicants successfully placed might well perpetuate women’s and minority groups’ disadvantaged position, as not all groups are equally attractive to employers. If the goal is to build a more inclusive labour market, financial incentives, such as budget appropriations, should be based on employment service agencies’ capacity to ensure that applicants successfully placed in work reflect the gender and ethnic diversity of job-seekers.*
- *It is also essential to place the emphasis in the short term on the need for retraining of NES staff in order to enable it adequately to fulfil its real duties, i.e. providing a service to users, adopting individual and tailor-made approaches, giving attention and a service to groups with specific needs, showing sensitivity to gender equality, attracting and providing services to employers, exploring local labour markets, collecting and analysing data, monitoring ALMPs, and establishing partnerships at local level. Working towards these objectives will not only require staff training, on a continuous basis, but will require mentalities progressively to change, and the staff to become fully aware of the duties assigned to the NES and the need to continue the reform to create a modern public employment service.*

- *Particular attention should be paid to the need for the NES to move gender equality issues higher up its agenda. Women have considerably lower activity and employment rates and higher unemployment rates than men, even though gender differences in educational attainment are negligible. This suggests the existence of discriminatory practices that limit women's choices and opportunities. The staff of employment services should promote gender equality and encourage the removal of gender stereotyping in the context of employment and training opportunities. This requires that NES staff be taught about gender-based discrimination and how to combat it, as well as the introduction of positive measures in favour of women applicants. These may comprise the setting of targets for enhancing women's participation in training activities in non-conventional occupations open to both men and women, or the development of job-search-cum-training programmes for specific categories of women, such as low-income heads of households. The NES should help to identify agencies providing support and assistance to particularly disadvantaged groups of women. Up-to-date records should be kept of local service providers which offer programmes for women in self-employment, small business development and vocational skills training. The NES should collect labour market data disaggregated by sex. The data must be analysed from the gender inequality standpoint, and the results made public.*
- *It is also important for the NES to pay specific attention to the situation of ethnic minorities and of displaced persons and refugees, who often find themselves in very difficult economic and social circumstances and have little or no access to the formal labour market. In this context, the identification and dissemination of good practice and guidelines about how to replicate it are essential. The collection of information in order to assess whether ethnic minorities are fairly represented as applicants and among those who find employment (as in the Slovak Republic, for example)⁶³ through periodic checks, is equally important.*
- *Emphasis should be placed on improving relations between the NES and employers, but also between the NES and a wide range of potential partners, such as local authorities, NGOs and possibly, in the near future, private employment agencies, once a network of quality private agencies has been developed.*
- *Finally, better policy co-ordination should be promoted in the context of mass redundancies and the restructuring process: if the NES cannot prevent mass redundancies, it can play a role in preparing for the transition and finding solutions for laid-off employees, provided that it is informed and involved well ahead of the restructuring. It could also play a more important role in the preparation and implementation of restructuring programmes. The NES should therefore co-operate more with other institutions, such as the Privatisation Agency.*

3.5. Income policy

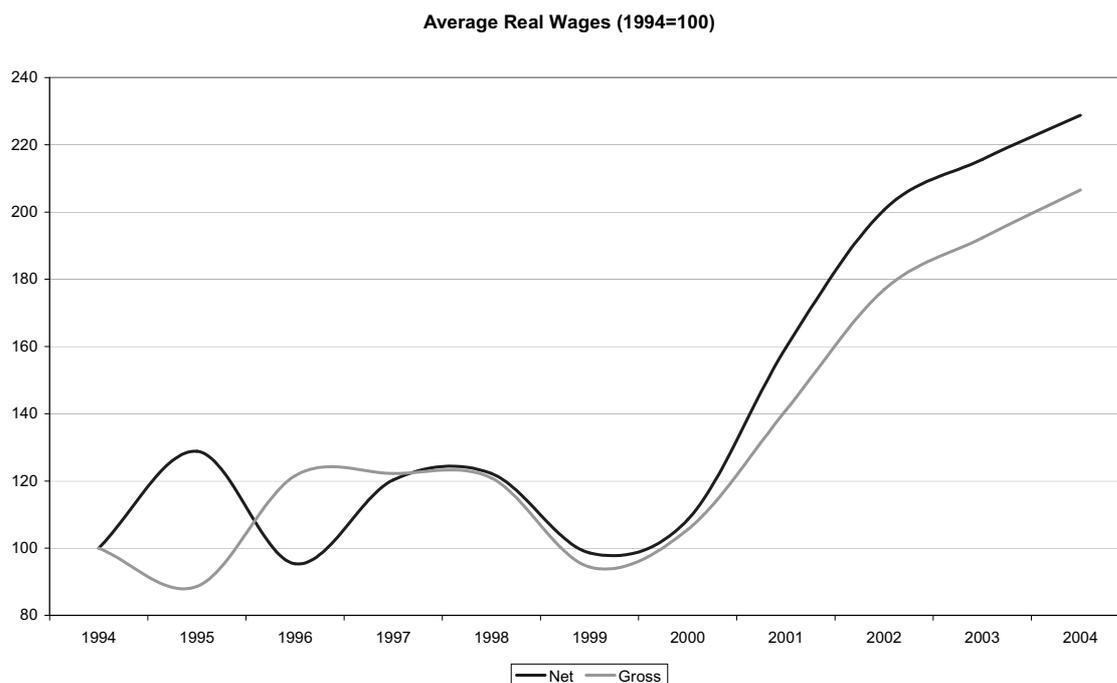
3.5.1. Wage policy

The beginning of transition was a time of falling production, increasing prices and rising unemployment. Occasional wage increases were followed by setback after setback: as a result

63. ILO 1997.

of the war with NATO in 1999, real wages dropped by 16%, back to the level of 1996. However, real wages started to rise strongly from 2000 onwards, more than doubling by 2004 (when average real wages were 94-111% higher than in 2000).⁶⁴ As in many other South-East European and CIS countries, the first phase of transition, up to 2000, saw the output decline associated with the economic transition lead to a decline in wages, more than a decline in employment. This pattern seems to be changing, as wages increase, and employment, which had stabilised between 1997 and 2001, is starting to fall again. Since wages grew more than four times faster than GDP (and productivity) between 1999 and 2004, it is likely that wage growth was at least partly responsible for the renewed fall in the employment rate. Moreover strong wage growth increased inflationary pressures, thereby forcing the National Bank of Serbia to run a stricter monetary policy than would otherwise have been necessary.

In 2004 the average net wage was 14,108 dinars (€193) a month. The (unadjusted) share of net salaries in the social product is falling. While net salaries accounted for 44.9% of the GDP in 2000, in 2002 the share had dropped to 33.1%. The disparity in wages across sectors of economic activity is large. In 2003, the highest average wages (up to three times the average for the economy as a whole) were paid in activities related to mining, tobacco production, air transport services and financial services. The lowest wages (less than a quarter of the average) were paid in garment manufacture.⁶⁵



Data Source: The Statistical Office of Serbia

The minimum hourly wage is set half-yearly by the Social-Economic Council, or by the government in the absence of a ruling by the Council. Its present value is 41 dinars or about €0.5, which amounts to a monthly wage of about 6,160 dinars or 35% of the average wage. For a fully employed person, this equates to an income of about double the poverty income. If there are any dependents, the household income approaches the poverty line. In this situation, there is a risk of undesirable consequences, including efforts by workers to find a second job

64. Data are not fully consistent between different sources and methods of calculation. The general picture however remains unchanged.

65. Statistical Yearbook of Serbia 2004.

to satisfy income needs, or a drift to the informal sector. At the same time, as was mentioned above, the average pay in certain sectors is below the minimum wage.⁶⁶ It is therefore possible that the level of the minimum wage (too low in the first case, too high in the second) is pushing some employment into the informal sector.

A minimum wage can help to raise the level of productivity. The setting of a minimum wage requires firms to be sufficiently productive to pay this amount. If the “low road” to competitiveness through low wages and downward wage adjustment is blocked, enterprises have to seek to compete in other, more constructive ways. They will have to choose the “high road” of greater efficiency, especially if this option is rewarded by other measures of public policy, such as incentives to skills training and other kinds of investment. Confronted with a minimum wage rule, employers will have to make efforts to improve human resources management and development, work organisation, and product and process innovation. The setting of the minimum wage should therefore take into account both the short-term consideration that too high a minimum wage can force low-productivity workers into the informal economy and the long-term consideration that too low a minimum wage can curb long-term productivity increases and growth. There is ample evidence of this. In Europe, the best-performing companies and the high-performance countries all have relatively high minimum wage levels. Certain dynamic countries in Asia owe some of their fast growth and competitiveness to the raising of the wage floor. One example is Singapore, which started in the 1980s to pressurise companies to raise their wage levels, in order to encourage them to change to products and processes with higher added values.

As elsewhere in CEE economies, the way wages are determined radically changed as the countries concerned underwent their systemic transformation. Collective bargaining in these countries generally has a more limited role than in the majority of Western EU member states. In Serbia, the bargaining process was decentralised as a consequence of the Labour Law reform of 2001. Although the law provides for collective agreements, in reality they play a role very much limited by the fragmented nature of employers’ associations and dwindling union membership, and wages are mostly determined within the firm or the plant. Due to its role as the biggest employer, the state continues to influence wage-setting. The fragmented structure of wage-setting is not conducive to a concerted income policy, which could support job creation and sustain macroeconomic stabilisation and faster growth.

Recommendations:

- *Government and the social partners should establish a wage-setting system that allows for anti-inflationary and employment-friendly wage policies.*
- *Wage growth should be kept moderate (i.e. under or on a par with nominal GDP growth), since real wages have already risen strongly in recent years, inflationary pressures have increased and the decline in employment has accelerated, possibly because of strong wage growth.*
- *A careful study of wage levels and the wage structure should be undertaken to identify a) whether the minimum wage is at the optimum level (providing sufficient income, allocating labour efficiently, and making employment more productive) and*

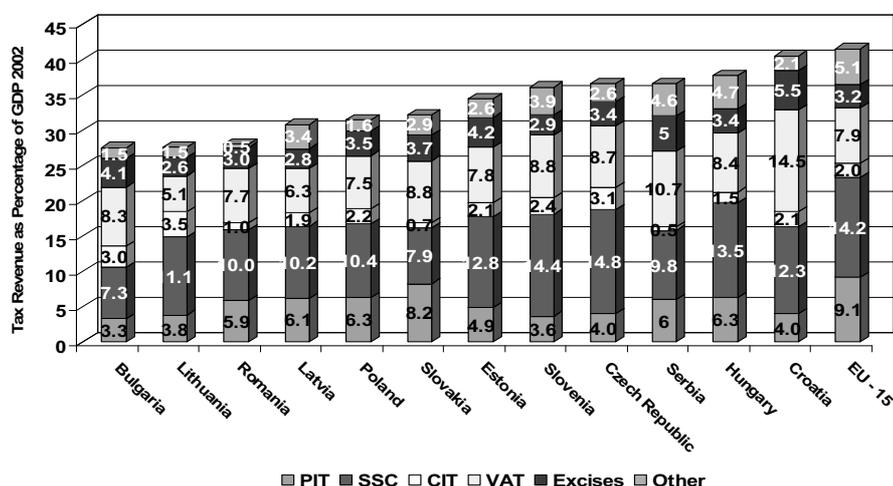
66. In 2003, in the sector with the lowest pay (garment and fur production), the average net wage was only 24% of the average net wage for the economy as a whole. The data have to be treated with caution, however, because it is surprising to find reported wages which are under the minimum wage level.

b) whether wages are higher than expected in certain sectors because of an inadequate supply of appropriately trained labour – thus also explaining the large disparity in wages. Such a study would enable policy-makers and the social partners to negotiate optimum wage levels conducive to both job creation and economic growth.

- The government and social partners may consider the introduction of job evaluation schemes in order to reduce the wage gap between women and men and promote financial independence for women.

3.5.2. Tax policy

In 2004 Serbia collected 37.2% of its GDP in taxes. Although Serbia has a large informal sector, this is seen to be among the highest levels if compared with the new EU member states and the candidate countries,⁶⁷ but still lower than in Croatia or the average of the EU-15, where total tax revenue is slightly over 40% of GDP.⁶⁸



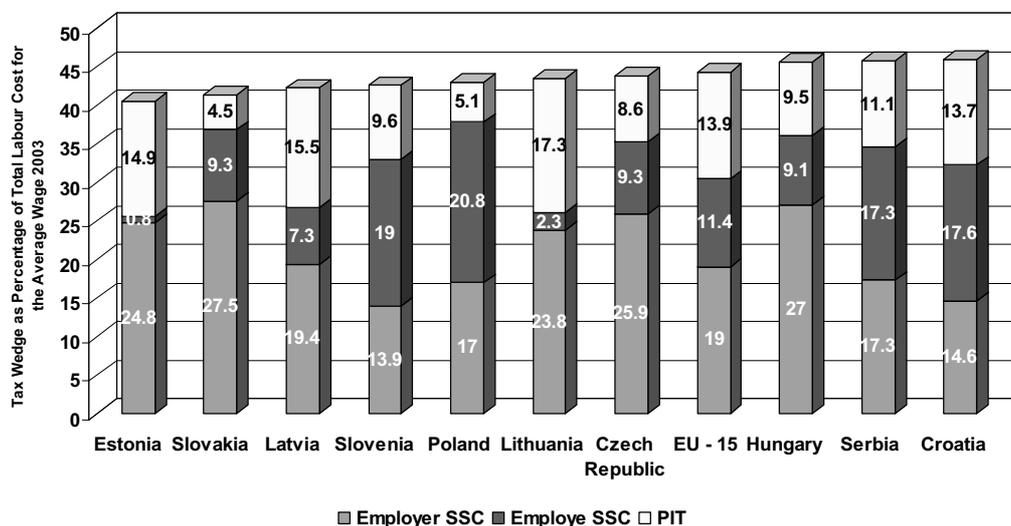
Where the structure of government revenue is concerned, revenue from taxes on labour is relatively low in Serbia; personal income tax revenue (6.0% of GDP) is around the average of new EU members and candidates, while social security contributions (9.8%) are the lowest in the group with the exception of Bulgaria and the Slovak Republic. In contrast, Serbia has relatively high VAT revenues (10.7%), second only to Croatia, and its excise and other duties (9.6%) are the highest in the group of countries. Thus indirect taxes, which disproportionately affect people with lower incomes, constitute the bulk (54.6%) of tax revenue.

Social security contributions comprise pension contributions (10.3% of gross wage to be paid by employer and employee alike), health insurance (varying rates up to 9.7% of the gross wage to be paid by employer and employee alike), and unemployment insurance (varying rates up to 0.9% of the gross wage to be paid by employer and employee alike). Personal income tax is levied at a flat rate of 14% (up to an income level of four times the average). Therefore a uniform tax wedge (i.e. taxes and social security contributions as a percentage of

67. This is because the other countries also have large informal sectors, and Serbia has relatively high mandatory tax rates. Also it collects more than half of tax revenue through indirect taxes (which might also be paid by enterprises that employ workers informally).

68. Data in the graph are from the UN Economic Commission for Europe database for 2002, except the figures for Croatia (2003) and Serbia (2004), which are from the IMF.

total labour cost) of 45.7% applies in Serbia, which is higher than in any of the new EU member states or the EU-15 average of 44.3%. This high value mainly derives from the fact that employees' pension and health insurance contributions are relatively high (amounting to 20% of the gross wage).⁶⁹ The high tax take from labour is in contrast to the relatively low proportion of the total tax revenue in Serbia that comes from social security contributions. This is likely to be due to the low employment rate and large informal economy in Serbia.



Recommendations:

- *The overall tax burden should be slightly reduced, as the total level of taxation is rather high and might curtail long-term economic growth by reducing the scope for private investment. Reducing the overall tax level may also help to cut tax evasion and the size of the informal labour market.*
- *As the tax wedge on labour is high by international standards and should be reduced, it is advisable to reduce the social security contributions paid by employees while at the same time tightening enforcement of the payment of contributions.*
- *The heavy reliance on indirect taxation may be challenged on social grounds, as indirect taxes disproportionately affect the poor, and the virtual absence of personal and capital income taxation exacerbates social inequalities.*

3.6. Social dialogue

Overall framework

Immediately after the Milosevic regime fell, in October 2000, once a democratic government had been put in place, the Serbian partners in tripartite negotiations gave priority to the development of three-way social dialogue at national level, thus following the industrial relations pattern that prevails in most countries of South-Eastern Europe. They considered the

69. Data are taken from the World Bank EU-8 Quarterly Economic Report April 2005 and for Serbia from legal stipulations.

creation of a mechanism for tripartite social dialogue as a priority, with a view to addressing the huge social challenges facing the country – economic collapse, high unemployment and widespread poverty. At the same time, the development of bipartite social dialogue between workers and employers was given less attention.

In this context a Social-Economic Council (SEC) was created in August 2001 on the basis of a tripartite agreement signed by the government and the leaders of workers' organisations and employers' associations. Due to the three parties' lack of experience of social dialogue in Serbia, the SEC did not function efficiently (it met just a few times and produced no concrete results), and ILO assistance was requested to put tripartite social dialogue on track. The SEC was relaunched under another tripartite agreement, concluded in April 2002 with the assistance of the ILO, which specified its tasks in greater detail, including those in the field of labour market policies, and its working methods. After a promising start, with several meetings held in 2002, during which topical issues including labour law reform and employment were addressed, the SEC again ceased functioning early in 2003, as a result of some disagreements between the Minister of Labour – who chaired it – and the social partners on the one hand, and between the three confederations of trade unions, over representativeness, on the other. The lack of interest on the part of technical ministries (Economy and Privatisations, Industry, etc.) in the dialogue with social partners was also an obstacle to effective functioning of the SEC. As a result, Serbia was deprived of a functioning forum for tripartite consultation at a crucial stage of the country's transition to a market economy and stable democracy. Without a functioning forum for social dialogue, several important laws were passed, including the law on privatisation, without proper consultation of the social partners.

The social partners attributed the shortcomings of the SEC to its lack of legal framework and resources (premises, secretariat with technical and administrative support staff). They requested that the new government that came to power in March 2004 promulgate a law with a view to securing better functioning of the Council.⁷⁰ After consultation among the three parties, a law on the SEC was adopted in November 2004 by the Serbian Parliament. At the same time, the new government embarked on a process of evaluating the representativeness of the social partners on the basis of the new criteria defined in the legislation, with a view to settling the dispute over their participation in the SEC.

The Council started to operate again in spring 2005 on the basis of the new rules established by the law. It now has a new composition, with 18 members equally representing the government, workers and employers. Only those workers' and employers' organisations that have met the criteria of representativeness as defined in the law have been granted a seat in the Council, enabling them to participate in the dialogue with the government.

According to the law, the SEC has a wide remit, including providing opinions to the government on draft laws and regulations in the fields of employment policy, education and vocational training, wage and price policies, competitiveness and productivity, privatisation, structural adjustment and social security. The Council may also discuss issues related to the development and promotion of collective bargaining, economic policies and social development, and reports back to the government about these. All members of the Social-Economic Council have to agree before a position may be adopted on the above-mentioned issues.

70. Y. Ghellab, and M. Vylitova, "Tripartite Social Dialogue on Employment in the Countries of South Eastern Europe", ILO-SRO Budapest, 2005.

A secretariat – comprising 5 persons, including the secretary-general elected by the members of the SEC – was put in place in order to prepare for Council sessions and follow up its deliberations. The SEC has held several meetings since its relaunch and examined several topics including the government's enterprise restructuring work plan. It has also provided an opinion to the government on reform of the pension law. However, according to the social partners, their influence on this reform remains very limited, because of the pressure exerted by the IMF on the Serbian Government.

There appears to be a significant improvement in the functioning of the SEC and, more generally, of tripartite social dialogue in Serbia. However, there remain some problems, preventing the SEC and the overall tripartite social system from operating properly, namely:

- the SEC still lacks premises and enough operating resources;
- insufficient interest is shown by key technical ministries (Economy and Privatisation, Finance, Industry) in co-operation with the social partners and in social dialogue in general.

These problems need to be addressed urgently, and the law on the SEC ought to be fully implemented with a view to consolidating the progress made recently in the field of tripartite social dialogue. The Ministry of Labour is well aware that the establishment of social dialogue between relevant trade unions, associations of employers and representatives of government constitutes a necessary condition for overcoming current transition problems, as well as for getting closer to the industrial relations model of the EU member countries.⁷¹

A further effort on behalf of the government to ensure that trade unions benefit from proper premises from which to conduct their work would help to consolidate trust among the social partners and develop social dialogue further.

Social partners

There are two representative trade unions at national level: Nezavisnost and Samostalni Sindikat of Serbia (SSS).⁷² Both are represented in the SEC. Trade unions are active in the public and socially-owned sectors and in privatised enterprises (42% union membership). In small and medium-sized private enterprises, however, the percentage of trade union members seems low and needs to be improved. The difficulties of reaching out to workers in SMEs have had negative repercussions on their ability to influence the reform agenda. However, efforts are being made by the leadership of the two main confederations of trade unions to reverse this trend.

There are two registered employers' associations: the Union of Employers of Serbia (UPS) and the Association of Industrialists and Entrepreneurs. Only the former fulfils the statutory criteria for representativeness and is represented in the SEC. The Chamber of Commerce, which used to represent employers *vis-à-vis* the government and trade unions in the late 1990s and early 2000s, has withdrawn from the social dialogue scene and been replaced by the UPS, thanks to the work done by the ILO.

71. MoLESA 2004 and 2005.

72. The third – non-representative – one is the Independent Trade Union of Serbia (ASNS).

Generally speaking, the social partners still lack the technical capacities and financial resources to influence the shaping of national reform agendas, including in the area of employment policies. Their bipartite relationship is also underdeveloped, as illustrated by the very low number of bipartite agreements concluded in Serbia, particularly in the expanding private sector. As a matter of fact, most of the collective agreements concluded so far are in State-owned companies. However, there has been an attempt recently by the social partners to formulate and conclude a national agreement with a view to creating more rights for workers and securing greater flexibility for enterprises. The negotiations are at an early stage and will certainly take some time to be completed. This promising step needs to be followed by further initiatives in order to expand collective bargaining at enterprise and sectoral levels in both the public and competitive sectors.

Social dialogue and employment

There are other social dialogue institutions that deal with employment issues in Serbia. Indeed, in addition to the SEC, which has a working committee on employment, the Law on Employment and Unemployment Insurance (2003) provides for the establishment of the national Employment Council, consisting of representatives of government, employers' associations and trade unions, national services and agencies, NGOs and experts on labour market issues. It is responsible for advising the government on programme design, the organisation of public works and general economic, social and demographic policy. It can also advise on draft laws and regulations about employment, social insurance and lifelong learning. The Council is legally and operationally distinct from the Managing Board of the National Employment Service, which has 15 tripartite members and decides on the operational arrangements of the NES and on unemployment contribution rates. However, the Council has never been brought into action. The same law provides for the possibility of establishing provincial and local Employment Councils, with stakeholder representation similar to that in the national Employment Council. As of the end of February 2006, 60 local Employment Councils had been set up at municipal level (in 60 of the 165 municipalities in Serbia – not counting Kosovo and Metohija), thus considerably deepening social dialogue in Serbia.⁷³

A clearer distribution of tasks between these social dialogue institutions would certainly help to enhance the quality of the dialogue between the different parties about employment issues. The social partners were consulted during preparation of the National Employment Strategy for 2005-2010, and took part in the drafting of the strategy paper. They are now involved in consultations on the National Action Plan for 2006-2007. As far as education and training are concerned, the social partners have not been involved in VET curriculum design, with the exception of one pilot project under the EU CARDS programmes. This is one of the main reasons for the skills mismatch in Serbia.

Recommendations:

- *The law on the SEC needs to be implemented, and the SEC given the resources that it needs in order to function – particularly adequate premises and an increased budget. The secretariat of the SEC also needs to be strengthened and its staff trained to ensure effective follow-up of the work of the Council;*

73. ETF 2005.

- *The Ministry of Labour should engage in dialogue with the technical ministries (such as the Ministries of Finance, Economy, Capital Investment and Education) to ensure their effective participation in the work of the SEC, as they are the main bodies responsible for implementing employment policies;*
- *The social partners must be further strengthened and their technical capacity for tripartite and bipartite dialogue and negotiation reinforced. They also need to increase co-operation among themselves with a view to enhancing their influence on the employment policy agenda;*
- *The framework for social dialogue on employment matters needs to be streamlined and a clear system of interaction laid down between the different institutions, namely the Social-Economic Council, the national and provincial/local Employment Councils, the National Council for Education and the management board of the National Employment Service. These institutions provide an ideal platform for exchange and consensus-building. However, a clear distribution of tasks needs to be defined between them to avoid overlaps between their roles and responsibilities;*
- *Gender specialists should be selected and trained in each organisation to help to disseminate information about equal treatment measures and promote gender equality among their clients.*

3.7. Vulnerable groups

The very high unemployment rates experienced by Roma are caused by numerous factors, including widespread discrimination and a generally low level of education and vocational training. Not only have there been numerous reported cases of discrimination relating to access to employment, but Roma also face barriers in terms of access to vocational education and training. Gaps in the anti-discrimination legislation, combined with the continuing ineffectiveness of the judiciary, make it difficult for individuals to seek redress through the courts for discrimination relating to access to employment or at the workplace.⁷⁴

In major policy documents, minority groups and refugees/IDPs are not explicit target groups for action in the field of employment, although they are referred to in Article 9 of the 2003 Law on Employment and Unemployment Insurance (as are women and persons with disabilities). The Law states that priority should be given to these groups in the framework of certain ALMP programmes. Nevertheless, there is no specific mention of ethnic minorities or Roma amongst the target groups of ALMPs, particularly in the programme of subsidies for self-employment. However, self-employment is one of the best possible options for getting Roma back to the formal labour market.

Still, the Government of Serbia has acknowledged the difficult situation facing these groups and started to design specific tools to tackle their exclusion from the labour market. Most of its attention has been devoted to Roma. Firstly, in the Poverty Reduction Strategy Paper (PRSP, 2003), there is a specific addendum devoted to Roma poverty, and funds were earmarked for Roma employment (€10.2 million) in the context of the implementation of the

74. Council of Europe, Advisory Committee on the Framework Convention for the Protection of National Minorities, Opinion on Serbia and Montenegro, March 2004.

PRSP for 2004-2006. However, it seems that implementation of the measures recommended in the PRSP has not yet started.

The government then started to develop specific strategy documents to improve the situation of the Roma. A National Plan of Action, within the framework of the Decade of Roma Inclusion, was adopted in 2005, covering access to education, employment, housing and health, and based on the Draft Strategy for the Integration and Empowerment of Roma. The latter has not yet been formally adopted by the government, although some parts have started to be implemented (setting up of a secretariat for the Roma national strategy). The Draft Strategy provides a framework for affirmative action in order to promote equality of opportunities for Roma. It is a rights-based approach, acknowledging as the main reasons for Roma exclusion from the labour market both their very low level of education and discrimination by employers. It was designed with the participation of Roma experts and recommends action in a number of areas:

- combating discrimination on the labour market;
- targeting of ALMPs on Roma (wage subsidies, traineeship/apprenticeship programmes, employment in the police and the army, etc);
- developing SMEs and self-employment through microcredit;
- vocational training and retraining programmes;
- business support;
- information campaigns for Roma on their rights and duties.

In fact, this is a list of existing programmes and measures that could be used to reduce unemployment among Roma. Nonetheless, some of the measures proposed have already been found to be not very efficient tools for getting people back to the labour market (such as wage subsidies or traineeship/apprenticeship programmes). Moreover, reference is made to the need to develop self-employment and the creation of SMEs by Roma job-seekers, and this is possibly one of the best options for Roma wishing to return to the formal labour market (development of small companies and legalisation of existing Roma-owned enterprises in the informal sector). Unfortunately, no mention is made of Roma (or any other minority group) as a specific target group in the National Strategy for the Development of SMEs in Serbia, although the Draft Strategy for Roma indicates that Roma issues should be mainstreamed in the Strategy for SMEs and similar national programmes. Finally, the Draft Strategy still lacks indications on the funding to be made available for implementation, in terms of both amounts to be allocated and budgetary sources. Also lacking is specific information on implementation mechanisms and monitoring and evaluation systems.

In the recently adopted National Employment Strategy (May 2005), drawn up on the basis of the 10 Guidelines of the EES, the disadvantaged situation of minority groups, including Roma, IDPs, refugees and persons with disabilities, is acknowledged.⁷⁵ It highlights the fact that “only 27.2 % of the Roma population is economically active” and that their unemployment rate is four times higher than that of other ethnic groups. The measures proposed are: enhancement of education, literacy and vocational training; encouragement for self-employment in traditional crafts; encouragement to take part in ALMPs; promotion of flexible forms of employment. It remains to be seen how these measures can be put into practice and funded. As for refugees and IDPs, there is a mention of the problems stemming from lack of papers. It is therefore planned to facilitate access to personal papers, provide

75. National Strategy For Employment, 5.4 Fighting discrimination against particularly disadvantaged groups.

scholarships for secondary education, subsidise early retirement, promote access to employment in agriculture and promote access to ALMPs. The Strategy also underlines the need for designing success indicators for each group.

Finally, the National Employment Action Plan for 2006-2007 explicitly mentions measures for persons at a disadvantage on the labour market. It highlights the need both for specifically targeted measures and to make mainstream measures, in particular ALMPs, more accessible to such persons.

Recommendations:

- *The legislative framework for tackling discrimination, especially in respect of access to work and at the workplace, should be completed, and effective remedies made available to victims of discrimination. The role of Labour Inspectors should also be reinforced in this regard.*
- *It is important that the Draft Strategy for the Integration and Empowerment of Roma (once it has been formally endorsed by the government) and the National Plan of Action within the framework of the Decade of Roma Inclusion be implemented, and therefore be accompanied by detailed implementation mechanisms, appropriate funding and monitoring and evaluation tools. Clear and workable objectives should also be set, so that progress can be effectively measured.*
- *In general, specific programmes and measures for Roma should also be mainstreamed and reflected in national strategies and plans. Otherwise, they run the risk of remaining marginal and being largely unfunded, so not being implemented. In this respect, it is commendable that Roma, minority groups in general and IDPs/refugees are specifically highlighted in the NEAP for 2006-2007. But here again, concrete and detailed implementation plans, funding and monitoring mechanisms should be devised.*
- *In particular, measures for Roma, other minority groups and refugees/IDPs should be included in the National Strategy for the Development of SMEs, as the development of entrepreneurship is an efficient tool to reduce labour market exclusion and poverty among these groups.*
- *When policies are devised to help minority groups, particular attention should be paid to gender equality and to the need to tackle these groups' exclusion from the labour market.*
- *The Draft Strategy for the Integration and Empowerment of Roma was prepared in close co-operation with Roma experts. It is important to continue involving Roma in the implementation and monitoring of programmes, as well as in further policy developments. The same applies to other minority groups and refugees/IDPs.*
- *It is important that Roma and other minority organisations and leaders be associated in policy-making and developments at local level. They should for instance be more involved in the work of the provincial/local Employment Councils. This would not only be helpful in the search for adequate solutions to their problems, but would also favour the mainstreaming of specific measures into national programmes.*

4. Conclusions and recommendations

The labour market in Serbia has undergone major changes in the past few years: the law has been amended, new institutions have been set up, and new policies have been devised. At the same time, economic restructuring is still under way, and both unemployment and informal employment remain very high. The Serbian labour market is still highly segmented along ethnic and gender lines and characterised by lack of labour force mobility and wide regional imbalances. The prospect of starting to prepare for accession to the European Union will no doubt help Serbia to overcome these challenges and to continue and deepen the current reforms of its employment policy.

The present report was conceived as a tool to help the Serbian Government to identify priority areas where progress is still needed. It is aligned with the priorities set in the National Employment Strategy for 2005-2010, and it is intended to contribute to the preparation of the National Action Plan for 2006-2007. It should also be helpful in discussions on employment with the European Union.

The legal framework: striking a better balance between flexibility and security of employment

Serbia has made significant progress recently in reforming its employment protection legislation. The new Labour Law simplified the previous regulations and introduced greater flexibility of employment patterns, while ensuring a number of rights for employees. The recent shift away from legal employment protection towards an activation of labour market policies is positive, but needs to be complemented by well-targeted, effective and affordable programmes of financial and active support for people who lose their jobs.

It seems appropriate to promote greater use of flexible forms of work in the formal sector, so that more flexible work organisation patterns offer an alternative to dismissals. Flexible forms of employment could also be promoted to allow workers to reconcile work and family obligations. The latter, however, should be introduced in ways that will not place women at a disadvantage in the labour market, so that the existing gender inequalities in pay and employment patterns are not worsened as a result.

Levels and forms of participation in the informal economy differ according to workers' sex and ethnic origin. Hence any strategy to reduce the proportion of informal work in overall employment must be based on an examination of, and must address, the gender patterns of informal work and the reasons for these.

Formalisation could be promoted by stronger and non-selective enforcement of tax collection arrangements, through reform of the tax administration, a better IT system and changes in the inspection system.

Particular attention should be paid to ways of legalising existing Roma-owned small businesses.

Maximising the impact of passive labour market policies

The overall structure of the unemployment benefit system is well designed and should not be changed. The system combines an appropriate level of benefits (which allow the unemployed

to search for a new job without losing their income) with a relatively short duration (thus providing an incentive to take up new work).

Spending on social programmes should be reduced and the money used to make sure that unemployment benefits are indeed paid from the day when the claim arises. The current practice of delayed payment reduces the efficiency of labour allocation and deprives would-be recipients of their lawful means of subsistence.

Pursuing and improving active labour market policies

Until now, most ALMPs have been introduced in an ad hoc fashion as a quick response to perceived problems which emerge as reforms progress. In view of the divergent achievements of various programmes, combined with limited financial and administrative resources, the MoLESA and NES need to set clear objectives for ALMPs (e.g. reduction of long-term unemployment, improvements for unemployed persons with low skill levels, inactive women, young people without work experience, vulnerable groups, etc.), so that they can be given priority.

Given the tight budget constraints that the country is facing and the lack of evaluation of the actual effectiveness of different (costly) types of ALMPs, active measures could be refocused on cheaper measures covering a larger number of people, and on developing their job-finding skills.

The structure and use of active measures do not sufficiently support the activation policy. Activation of the unemployed should start from their first contact with the Employment Service. The existing job-search seminars should be extended to all who remain unemployed for 3 months or more. For people already on the unemployment register for 9 months, more intensive help should be made available through a mix of measures including job clubs (which will need to be expanded considerably beyond 2005) and remotivation seminars that help individuals to re-examine their situation and experience over the preceding 9 months and redefine their career goals. The most expensive active labour market measures, including job training, should be reserved mainly for people unemployed for at least 12 months, or, in the case of public works programmes, for at least two years.

Access to help to become self-employed should be made as easy as possible. To this end, the specific needs and constraints (in terms of time, assets, contacts and experience) of specific groups of workers should be addressed. Co-operation with the Agency for the Development of Small and Medium-Sized Enterprises should be further intensified to this end.

There could be programmes supporting the formation of co-operatives, providing training and making access to small loans easier.

Regular evaluations are lacking. It is important to establish a system to monitor and evaluate the effectiveness and efficiency of ALMPs. Performance criteria should also include the capacity of ALMPs to provide equal opportunities to men and women. The beneficiaries of ALMPs should include men and women in proportions similar to their relative percentages in the claimant population. The EU-funded CARDS '04 Employment Reform Programme and the World Bank/DiFD project are introducing evaluation methodologies, but it is important for the MoLESA and the NES to ensure that there is a permanent monitoring and evaluation system.

Investing in human resources

Serbia is still at the beginning of the process of setting up an education and training system able to support the country's economic and social development. The question that arises is that of the extent to which implementation of the ambitious reforms is feasible in the current context, taking into account the low capacity for implementation (at both national and education and training provider level) and the limited available funds.

The concept of lifelong learning is accepted in Serbia, and a lot of the action proposed in policy papers provides opportunities for its realisation. One important element in lifelong learning is training provided by enterprises, currently confined to a relatively small number of larger firms. A particular challenge is providing training and skills upgrading for people in small and medium-sized enterprises, especially in the informal sector. Given the size of the informal sector in Serbia, this is a matter of particular concern.

A sound institutional infrastructure needs to be set up for the further development and implementation of reforms facilitating co-operation and exchanges between the business world and the education system.⁷⁶

Urgent attention is needed by those with low skills who are already on the labour market and have few prospects. Adult training needs to be moved up the government's agenda. The institutional framework needs to be developed, and adult training needs to be covered by relevant legislation. The "policy for the development of adult education" paper provides a good starting point for future developments; some immediate action is necessary, however: priority needs to be given to the provision of incentives to enterprises for training, the design and delivery of short training courses for unemployed persons, redundant workers or employees, covering both core skills and technical competences, and the accreditation of training provision so as to ensure its quality.

Reliable ways of measuring educational quality should be developed to address the problem of the quality of secondary education. The EU-funded CARDS 03 VET Reform programme has already organised some processes on a trial basis, but these need to be evaluated, adapted if appropriate and spread throughout the system.

Specific measures must be put in place to enable women and men to benefit from the (pilot) programmes on an equal footing. For example, the pilot activity on capacity-building and transfer of know-how relating to the development of short courses for adults should also target inactive workers. This would have significant gender implications, as women's inactivity rate is considerably higher than men's. The module on entrepreneurship development should spotlight and address the higher barriers that women face in starting up or scaling up a business.

Improving the efficiency of employment services

In order to fulfil its mission efficiently, the NES should first "slim down" the unemployment registers, which are inflated by a large number of persons who are not actively seeking employment, but have registered for the purpose of obtaining health insurance and other non-

76. For details, see ETF report, p. 46-47.

employment related services. Furthermore, adequate legislative amendments should be made so as to remove from the NES' remit unnecessary tasks such as the processing of medical examinations and the registration of job-seekers for health insurance. All in all, this should enable the NES to increase its capacity to deal with job-seekers in a more efficient and more individualised way, even if resources are not yet provided with a view to a dramatic increase in both staffing and capacity.

Decentralisation should be continued. It is responsibilities and decision-making capacity that need decentralising, so as to improve the capacity of local agencies to react to local circumstances and needs. However, it is important that this be supported by adequate means; it is for instance essential to review the allocation of staff to central offices and front-line/local and regional agencies, where a reinforcement of staffing is needed. The setting-up of local partnerships with local authorities, the social partners and possibly other players, such as NGOs, should also be encouraged during the process of decentralisation.

In order to improve the operation of the NES, it is important to continue the development of output monitoring and performance indicators. This work is under way, with support from external donors, and it should be actively continued. Use of appropriate performance indicators is the key to narrowing the present gender and ethnic imbalances in labour market outcomes.

Particular attention should be paid to the need for NES to move gender equality issues higher up its agenda. The staff of employment services should promote gender equality and encourage the removal of gender stereotyping in the context of employment and training opportunities. This requires that NES staff be taught about gender-based discrimination and how to combat it. The NES should help to identify agencies providing support and assistance to particularly disadvantaged groups of women. Up-to-date records should be kept of local service providers which offer programmes for women in self-employment, small business development and vocational skills training. The NES should collect labour market data disaggregated by sex. The data must be analysed from the gender inequality standpoint, and the results made public.

A gender-sensitive and inclusive approach is essential to effective job mediation. It is important that NES staff should not reproduce and perpetuate gender-based patterns of occupational segregation, especially when they are profiling unemployed persons or when they direct unemployed persons to particular enterprises. It is equally important to target the demand side of labour through awareness-raising initiatives. The latter should aim to eliminate gender and ethnic bias about the type of jobs that are "more suitable" for women and men, or for members of majority and minority ethnic groups, and to dispel prejudices about women and women's different attitudes at work or commitment level.

It is also important to pay specific attention to the situation of ethnic minorities and of displaced persons and refugees. In this context, the identification and dissemination of cases of good practice and guidelines about how to replicate them are essential. Collecting information to assess whether ethnic minorities are fairly represented as applicants and among those who obtain employment (as is done in the Slovak Republic),⁷⁷ by conducting periodic checks, is equally important.

77. Ethnic Minorities in Central and Eastern Europe, Guidelines and recommendations promoting their employment 3.5.

It is also essential to place emphasis in the short term on the need for retraining of NES staff in order to enable it adequately to fulfil its duties, i.e. providing a service to users, adopting individual and tailor-made approaches, giving attention and a service to groups with specific needs, showing sensitivity to gender equality, attracting and providing services to employers, exploring local labour markets, collecting and analysing data, monitoring ALMPs, and establishing partnerships at local level. Working towards these objectives will not only require staff training, on a continuous basis, but will require mentalities progressively to change, and the staff to become fully aware of the duties assigned to the NES and the need to continue the reform to create a modern public employment service.

Emphasis should be placed on improving relations between the NES and employers, but also between the NES and a wide range of potential partners, such as local authorities, NGOs and possibly, in the near future, private employment agencies, once a network of quality private agencies has been developed.

Finally, better policy co-ordination should be promoted in the context of mass redundancies and the restructuring process: if the NES cannot prevent mass redundancies, it can play a role in preparing for the transition and finding solutions for laid-off employees, provided that it is informed and involved well ahead of the restructuring. It could also play a more important role in the preparation and implementation of restructuring programmes. The NES should therefore co-operate more with other institutions, such as the Privatisation Agency.

Adjusting income policies

Government and the social partners should establish a wage-setting system that allows for anti-inflationary and employment-friendly wage policies.

Wage growth should be kept moderate (i.e. under or on a par with nominal GDP growth), since real wages have already risen strongly in recent years, inflationary pressures have increased and the decline in employment has accelerated, possibly because of strong wage growth.

A careful study of wage levels and the wage structure should be undertaken to identify a) whether the minimum wage is at the optimum level (providing sufficient income, allocating labour efficiently, and making employment more productive) and b) whether wages are higher than expected in certain sectors because of inadequate supply of appropriately trained labour – thus also explaining the large disparity in wages. Such a study would enable policy-makers and the social partners to negotiate optimum wage levels conducive to both job creation and economic growth.

The government and social partners may consider the introduction of job evaluation schemes in order to reduce the wage gap between women and men and promote financial independence for women.

The overall tax burden should be slightly reduced, as the total level of taxation is rather high and might curtail long-term economic growth by reducing the scope for private investment. Reducing the overall tax level may also help to cut tax evasion and the size of the informal labour market.

As the tax wedge on labour is high by international standards and should be reduced, it is advisable to reduce the social security contributions paid by employees while at the same time tightening enforcement of the payment of contributions.

The heavy reliance on indirect taxation may be challenged on social grounds, as indirect taxes disproportionately affect the poor, and the virtual absence of personal and capital income taxation exacerbates social inequalities.

Strengthening social dialogue to improve the functioning of the labour market

The law on the SEC needs to be implemented, and the SEC given the resources it needs to operate – particularly adequate premises and an increased budget. The secretariat of the SEC also needs to be strengthened, and its staff trained to ensure effective follow-up of the work of the Council.

The Ministry of Labour should engage in dialogue with the technical ministries (such as the Ministries of Finance, Economy, Capital Investment and Education) to ensure their effective participation in the work of the SEC, as they are the main bodies responsible for implementing employment policies.

The social partners must be further strengthened and their technical capacity for tripartite and bipartite dialogue and negotiation reinforced. They also need to increase co-operation among themselves with a view to enhancing their influence on the employment policy agenda.

The framework for social dialogue on employment matters needs to be streamlined and a clear system of interaction laid down between the different institutions, namely the Social-Economic Council, the national and provincial/local Employment Councils, the National Council for Education and the management board of the National Employment Service. These institutions provide an ideal platform for exchange and consensus-building. However, a clear distribution of tasks needs to be defined between them to avoid overlaps between their roles and responsibilities.

Gender specialists should be selected and trained in each organisation to help to disseminate information about equal treatment measures and promote gender equality among their clients.

Paying special attention to vulnerable groups

The legislative framework to tackle discrimination, especially in respect of access to work and at the workplace, should be completed, and effective remedies made available to victims of discrimination. The role of Labour Inspectors should also be reinforced in this regard.

It is important that the Draft Strategy for the Integration and Empowerment of Roma (once it has been formally endorsed by the government) and the National Plan of Action within the framework of the Decade of Roma Inclusion be implemented, and therefore be accompanied by detailed implementation mechanisms, appropriate funding and monitoring and evaluation tools. Clear and workable objectives should also be set, so that progress can be effectively measured.

In general, specific programmes and measures for Roma should also be mainstreamed and reflected in national strategies and plans. Otherwise, they run the risk of remaining marginal

and being largely unfunded, so not being implemented. In this respect, it is commendable that Roma, minority groups in general and IDPs/refugees are specifically highlighted in the NEAP for 2006-2007. But here again, concrete and detailed implementation plans, funding and monitoring mechanisms should be devised.

In particular, measures for Roma, other minority groups and refugees/IDPs should be included in the National Strategy for the Development of SMEs, as the development of entrepreneurship is an efficient tool to reduce labour market exclusion and poverty among these groups.

The Draft Strategy for the Integration and Empowerment of Roma was prepared in close co-operation with Roma experts. It is important to continue involving Roma in the implementation and monitoring of programmes, as well as in further policy developments. The same applies to other minority groups and refugees/IDPs.

It is important that Roma and other minority organisations and leaders be associated in policy-making and developments at local level. They should for instance be more involved in the work of the provincial/local Employment Councils. This would not only be helpful in the search for adequate solutions to their problems, but would also favour the mainstreaming of specific measures into national programmes.

Development of an employment promotion policy

Labour market policies can improve employability, ease transitions on the labour market, contribute to better matching of demand with supply and help to reintegrate vulnerable groups. But employment can be increased only through the stimulation of economic growth and job creation.

The National Employment Strategy for 2005-2010 thoroughly addresses this issue and expresses awareness of the need to make job creation the objective of economic policies in general. The Strategy recognises that macroeconomic stability is an essential prerequisite for sustainable growth and job creation. As structural imbalances in the Serbian economy continue (high inflation and government debt), the Strategy acknowledges that monetary and fiscal policies will have to remain cautious for some time to come. The same applies to wage policies, as real wages have risen strongly in recent years.

Strict fiscal policies, however, mean that there will be no room for an expansionary policy that would stimulate the much-needed growth in employment. Instead, structural reforms, such as improvement of the regulatory environment for investment, both foreign and domestic, and continuation of the privatisation process, are regarded in the National Employment Strategy as the economic policies by which growth can be most effectively promoted at present, leading to employment growth in the future. In macro planning, the links between long-term macro objectives (employment and growth) and short-term macro instruments need to be understood and factored in. Macroeconomic policies can have immediate repercussions (e.g. budget and import reductions; devaluations, etc.), but such “short-termish dashes” must be weighed against long-term policy prospects in relation to growth and employment.⁷⁸

78. Brown 2001.

While it is true that foreign direct investment is necessary for Serbia, given the current high level of unemployment, widespread underemployment and expected massive layoffs, the government may want to use expansionary macroeconomic policies to stimulate job creation through increased aggregate demand. Small and medium-sized enterprises will be created in Serbia (the main source of new jobs) only if there is a market for their products/services. Thus there is a need for both the arrival of large firms, to which they can act as sub-contractors, and an increase in national consumption capacity. The country also needs to rebuild its regional markets, so that it can respond to external demand through increased exports.

It is also crucial for the pattern, and hence the shaping, of growth to be factored in. Employment is neither automatic nor cost-free. Growth can be more or less employment-intensive, depending on how much of GDP growth is channelled into employment and how much fuels productivity improvements. The employment growth/productivity growth equation has to be viewed in the right perspective, taking into consideration the economic and social constraints facing the country.

Moreover, the macro-policy framework needs to be supported by a number of other policies, microeconomic and institutional. Thus issues of governance, social dialogue and social compacts need to be addressed, in order to make the impact of macro-policies more effective. In fact, for a country to attain stable growth and steady investment levels, there must be a favourable legal and social infrastructure, with well-defined accountability and with employers, workers and the government bearing their responsibilities, providing support for policy reform. Whether it is a question of devaluation, wage moderation or social protection, there has to be a consensus on shared responsibilities and transparency. An appropriate environment for macroeconomic policy is as crucial as the policy itself.

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APPENDIX I

List of relevant Council of Europe instruments ratified by Serbia

Convention	Signature/ ratification date	Status
Revised European Social Charter	22.03.2005	Signed
Framework Convention for the Protection of National Minorities	11.05.2001	Ratified

APPENDIX II

List of ILO conventions ratified by Serbia

Convention	Ratification date
C2 Unemployment Convention, 1919	24.11.2000
C3 Maternity Protection Convention, 1919	24.11.2000
C8 Unemployment Indemnity (Shipwreck) Convention, 1920	24.11.2000
C9 Placing of Seamen Convention, 1920	24.11.2000
C11 Right of Association (Agriculture) Convention, 1921	24.11.2000
C12 Workmen's Compensation (Agriculture) Convention, 1921	24.11.2000
C13 White Lead (Painting) Convention, 1921	24.11.2000
C14 Weekly Rest (Industry) Convention, 1921	24.11.2000
C16 Medical Examination of Young Persons (Sea) Convention, 1921	24.11.2000
C17 Workmen's Compensation (Accidents) Convention, 1925	24.11.2000
C18 Workmen's Compensation (Occupational Diseases) Convention, 1925	24.11.2000
C19 Equality of Treatment (Accident Compensation) Convention, 1925	24.11.2000
C22 Seamen's Articles of Agreement Convention, 1926	24.11.2000
C23 Repatriation of Seamen Convention, 1926	24.11.2000
C24 Sickness Insurance (Industry) Convention, 1927	24.11.2000
C25 Sickness Insurance (Agriculture) Convention, 1927	24.11.2000
C27 Marking of Weight (Packages Transported by Vessels) Convention, 1929	24.11.2000
C29 Forced Labour Convention, 1930	24.11.2000
C32 Protection against Accidents (Dockers) Convention (Revised), 1932	24.11.2000
C45 Underground Work (Women) Convention, 1935	24.11.2000
C48 Maintenance of Migrants' Pension Rights Convention, 1935	24.11.2000
C53 Officers' Competency Certificates Convention, 1936	24.11.2000
C56 Sickness Insurance (Sea) Convention, 1936	24.11.2000
C69 Certification of Ships' Cooks Convention 1946	24.11.2000
C73 Medical Examination (Seafarers) Convention, 1946	24.11.2000
C74 Certification of Able Seamen Convention, 1946	24.11.2000
C80 Final Articles Revision Convention, 1946	24.11.2000
C81 Labour Inspection Convention, 1947	24.11.2000
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	24.11.2000
C88 Employment Service Convention, 1948	24.11.2000

C89 Night Work (Women) Convention (Revised), 1948	24.11.2000
C90 Night Work of Young Persons (Industry) Convention (Revised), 1948	24.11.2000
C91 Paid Vacations (Seafarers) Convention (Revised), 1949	24.11.2000
C92 Accommodation of Crews Convention (Revised), 1949	24.11.2000
C97 Migration for Employment Convention (Revised), 1949	24.11.2000
C98 Right to Organise and Collective Bargaining Convention, 1949	24.11.2000
C100 Equal Remuneration Convention, 1951	24.11.2000
C102 Social Security (Minimum Standards) Convention, 1952	24.11.2000
C103 Maternity Protection Convention (Revised), 1952	24.11.2000
C105 Abolition of Forced Labour Convention, 1957	10.07.2003
C106 Weekly Rest (Commerce and Offices) Convention, 1957	24.11.2000
C109 Wages, Hours of Work and Manning (Sea) Convention (Revised), 1958	24.11.2000
C111 Discrimination (Employment and Occupation) Convention, 1958	24.11.2000
C113 Medical Examination (Fishermen) Convention, 1959	24.11.2000
C114 Fishermen's Articles of Agreement Convention, 1959	24.11.2000
C116 Final Articles Revision Convention, 1961	24.11.2000
C119 Guarding of Machinery Convention, 1963	24.11.2000
C121 Employment Injury Benefits Convention, 1964	24.11.2000
C122 Employment Policy Convention, 1964	24.11.2000
C126 Accommodation of Crews (Fishermen) Convention, 1966	24.11.2000
C129 Labour Inspection (Agriculture) Convention, 1969	24.11.2000
C131 Minimum Wage Fixing Convention, 1970	24.11.2000
C132 Holidays with Pay Convention (Revised), 1970	24.11.2000
C135 Workers' Representatives Convention, 1971	24.11.2000
C136 Benzene Convention, 1971	24.11.2000
C138 Minimum Age Convention, 1973	24.11.2000
C139 Occupational Cancer Convention, 1974	24.11.2000
C140 Paid Educational Leave Convention, 1974	24.11.2000
C142 Human Resources Development Convention, 1975	24.11.2000
C143 Migrant Workers (Supplementary Provisions) Convention, 1975	24.11.2000
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	13.05.2005
C148 Working Environment (Air Pollution, Noise and Vibration) Convention, 1977	24.11.2000
C155 Occupational Safety and Health Convention, 1981	24.11.2000
C156 Workers with Family Responsibilities Convention, 1981	24.11.2000

C158 Termination of Employment Convention, 1982	24.11.2000
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983	24.11.2000
C161 Occupational Health Services Convention, 1985	24.11.2000
C162 Asbestos Convention, 1986	24.11.2000
C182 Worst Forms of Child Labour Convention, 1999	10.07.2003

Source: ILOLEX – 18.8.2007

APPENDIX III

The Bucharest Declaration

**South East Europe Conference on Employment (SEE-EC)
Bucharest, 30-31 October 2003**

Improving Employment in South Eastern Europe

The Delegates to the Conference of Bucharest, meeting under the chairmanship of Mrs Elena Dumitru, Minister of Labour, Social Solidarity and Family of Romania, at her invitation and at the invitation of the Council of Europe and of the Belgian Federal Public Service Employment, Labour and Social Dialogue, under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe,

Bearing in mind the expectations with regard to further co-operation with the EU and within the region,

Recalling the Thessaloniki Declaration adopted on the occasion of the EU-Western Balkans Summit on 21 June 2003,

Considering the important preparatory work leading to this Conference,

approved unanimously the following declaration:

We, the Ministers responsible for Employment of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and “the former Yugoslav Republic of Macedonia”, as well as the Head of the Economic Administration of UNMIK,⁷⁹ recognise the common problems we face in the area of employment as a result of the restructuring linked to the transition to market economies, insufficient levels of investment as well as the damaging effects of the conflicts in the region in the 1990s.

We acknowledge:

- the substantial reduction in employment and, despite the reforms and restructuring already under way, the consistently high unemployment and relatively slow pace of job creation, the wide skill mismatches and regional disparities, and their adverse consequences for poverty and social cohesion;
- the need to improve employment policies and employment services, including training;
- the need to further develop specific measures and programmes to improve access to employment of vulnerable groups;

79. Associated to this process according to Security Council Resolution 1244 on Kosovo.

- the need to promote labour mobility and to remove obstacles preventing it;
- the need to improve social dialogue.

Together and in partnership with relevant national and international institutions, we are convinced that we can better address these common problems, through improvements of our policies, reinforcement of our institutional capacities, pooling of our expertise in employment matters, and improved co-ordination of available international assistance.

We commit ourselves to a process of regional co-operation in the areas of employment, labour markets and training, as described in detail in the Appendix to the present Declaration. The process, intended to better addressing the above-listed problems, is aimed at:

- **preparing our future integration into the European Union** by converging towards the objectives and guidelines of the European Employment Strategy;
- **implementing the Council of Europe standards in employment matters** – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and
- **making operational the core elements of the International Labour Office’s Global Employment Agenda in our countries.**

We are aware that the success of our effort will depend on the creation of a favourable investment climate based on macro-economic stability, full co-operation with social partners, sound legal and regulatory frameworks and governance standards as well as on the development of small and medium enterprises. In this context, we commit ourselves to concentrate our efforts on the following areas:

- promotion of entrepreneurship;
- greater mobility, by:
 - fostering a more flexible labour market but balanced with reasonable employment and income security for workers;
 - examining the possibility of promoting the free movement of workers in the region by means of bilateral agreements;
- incentives for employment creation and training;
- improvement of the performance of the national employment services;
- non-discrimination in access to employment, in remuneration and in working conditions, with particular attention to gender equality;

- handling of the social consequences of privatisations and restructurings;
- improvement of the quality of employment (contracts, remuneration, skills and qualifications, health and safety at work, employment related social protection, etc.);
- specific programmes for vulnerable groups (including access to credit);
- improvement of social dialogue and enhanced involvement of social partners in the formulation and implementation of social and economic policies;
- the transformation of undeclared work into regular work;
- adequate and comprehensive labour market information.

We issue a plea for assistance from international stakeholders to achieve the goals of this Declaration. We acknowledge the important support we have been receiving from international and bilateral institutions. In particular, we acknowledge the important analytical and policy development work of the International Labour Organization, the Council of Europe and the World Bank.

Under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe, we look particularly to the Council of Europe and the International Labour Organization for strategic guidance and support in ensuring an efficient follow-up to our meeting along the lines described in the Appendix.

We commit ourselves to meet again in the Spring of 2005 to assess progress achieved over the next 18 months in implementing the goals set out in this declaration.

Done in Bucharest on 31 October 2003

Valentina LESKAJ
Minister of Labour and Social Affairs
Albania

Safet HALILOVIĆ
Minister of Civil Affairs
Bosnia and Herzegovina

Rumen SIMEONOV
Deputy Minister of Labour and Social Policy
Bulgaria

Davorko VIDOVIĆ
Minister of Labour and Social Welfare
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Valerian REVENCO
Minister of Labour and Social Protection
Moldova

Elena DUMITRU
Minister of Labour and Social Solidarity
Romania

Dragan MILOVANOVIC
Minister of Labour and Employment
Serbia and Montenegro

Jovan MANASIJEVSKI
Minister of Labour and Social Policy
“The former Yugoslav Republic of
Macedonia”

as well as **Jürgen VOSS**
Associate Head for Economic Reconstruction
United Nations Interim Administration
Mission in Kosovo

We, the representatives of the Stability Pact for South Eastern Europe, the Council of Europe and the International Labour Organization, commit ourselves to ensure the follow-up to this Conference.

Miet SMET
Chair, Initiative for Social Cohesion

Gabriella BATTAINI-DRAGONI
Director General of Social Cohesion

Stability Pact for South Eastern Europe

Council of Europe

Bernard SNOY
Director, Working Table II
Stability Pact for South Eastern Europe

Göran HULTIN
Executive Director – Employment Sector
International Labour Organization

Appendix

Operation of the process of co-operation on employment in South Eastern Europe

1. **The Council of Europe** is in charge of co-ordinating the process of co-operation, in close relation with the **International Labour Office**, under the auspices of the **Social Cohesion Initiative of the Stability Pact for South Eastern Europe**.

2. **The Ministers responsible for employment of the beneficiary countries of the Stability Pact for South Eastern Europe** will approve and regularly update the objectives of the co-operation on employment as well as the programme of activities. They will meet every 18 months. The next meeting will take place in the Spring 2005.

3. **An assessment process of national employment policies will be launched for each country:**

- 3.1. This assessment process will take into account the key elements of the Global Agenda for Employment of the International Labour Organization, the European Employment Strategy and the relevant Articles of the European Social Charter and of the Revised Charter and relevant Recommendations of the Committee of Ministers of the Council of Europe;
- 3.2. In the case of Bulgaria and Romania, the assessment process will rely on the Joint Assessment Papers (JAPs), prepared with the European Commission;
- 3.3. The national social partners will be fully associated in the process;
- 3.4. The assessment process will be inspired by the methodology applied between the European Commission and candidate countries in their co-operation on employment within the framework of the EU enlargement;
- 3.5. Employment experts from Belgium and other EU member states will be invited to contribute with their experience in implementing the European Employment Strategy.

4. **A Permanent High-Level Committee (PHLC) composed of the General Directors of Employment** of the beneficiary countries of the Stability Pact for South Eastern Europe will design the programme of activities; set up working groups; mobilise human and financial resources in support of the programme of activities; supervise its implementation and prepare the ministerial meetings.

- 4.1. The following partners will be able to participate in the meetings of the Permanent High Level Committee, as observers:
 - 4.1.1. the social partners of the countries concerned by the review of national reports;
 - 4.1.2. representatives of international organisations of social partners (IOE, ETUC);

- 4.1.3. representatives of interested international organisations (UNDP, UNECE, OSCE, OECD,...) and international financial institutions (World Bank, CEB, EBRD, EIB,...);
- 4.1.4. representatives of interested donor countries.
- 4.2. The technical contribution of the European Commission will help the process of co-operation.
- 4.3. The Permanent High-Level Committee will meet at least twice in between ministerial meetings. It will meet in Working Groups with experts to examine, in particular, the following questions:
 - 4.3.1. **Review of national employment policies (Working Group I).** The Working Group I will meet under the leadership of the **ILO**;
 - 4.3.2. **Capacity-building, quality of service delivery in employment services and improvement of programmes specifically designed for vulnerable groups (Working Group II).** The Working Group II will meet under the leadership of the **Council of Europe**;
 - 4.3.3. Each Working Group will meet at least once in between ministerial meetings.
- 4.4. The Working Groups will pay particular attention to the identification of projects to be funded by international stakeholders and donors. **The collection and co-ordination of demands and offers for assistance will be monitored by the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe.**

5. **The terms of reference and rules of procedure** of the Working Groups will be set up at the first meeting of the Permanent High-Level Committee, to take place in Brussels on 9 and 10 December 2003, at the invitation of the Belgian Federal Public Service for Employment, Labour and Social Dialogue.

6. **Financing the co-operation process:**

The above-mentioned international organisations and international financial institutions are invited to provide long-term assistance to our process of co-operation on employment.

In particular, we ask for support from the stakeholders of the ISC of the Stability Pact for South Eastern Europe.

7. **Entry into force of the process of co-operation:**

The process of co-operation, as described above, will enter into force on **9 and 10 December 2003**, at the occasion of the first meeting of the Permanent High-Level Committee.

