

Chapter 8.

Employment policy in South East Europe

This chapter on employment assesses the policy settings, strategies, processes and institutions in six South East European economies. After a brief overview of employment trends and performance in South East Europe, the chapter then focuses on four essential sub-dimensions. The first sub-dimension, labour market governance, analyses the capacity of key labour market institutions and strategies to ensure high-quality jobs and develop flexible, inclusive and proactive labour markets. The second, activation policy, assesses activation measures and institutions and their ability to bring jobseekers and disadvantaged groups into the labour force and into jobs. The third, job quality, analyses policy measures that contribute to the well-being of workers by looking at earnings quality, labour market security and quality of the working environment. The final sub-dimension, social economy, explores government efforts to promote the social economy and an environment conducive to social enterprises. The chapter includes suggestions for enhancing the policies in each of these sub-dimensions in order to improve employment policy, which in turn would foster the competitiveness of these economies.

Main findings

Long-term competitiveness will be achieved by fostering more inclusive and cohesive societies in which widespread employment opportunities with high-quality jobs and sufficient social protection raise living standards. Creating more and better quality jobs is a major challenge for governments in the South East Europe (SEE) economies assessed in this *Competitiveness Outlook*.

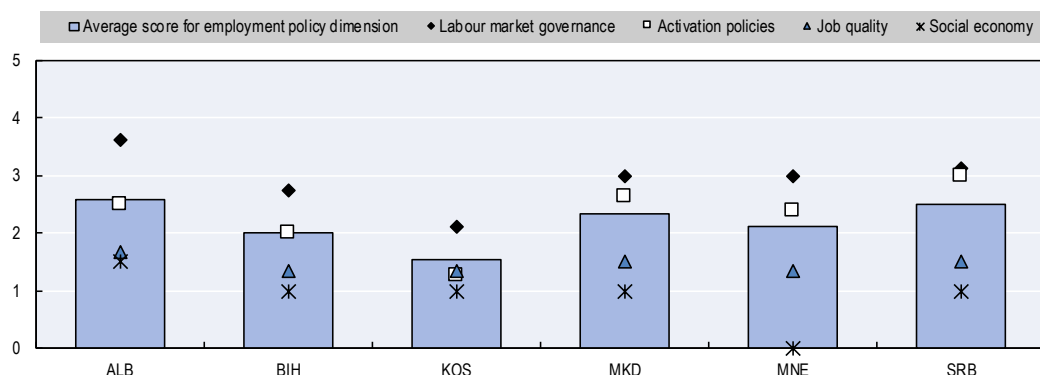
The six assessed SEE economies – Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo,* Montenegro and Serbia – share a number of common labour market conditions and trends. Their employment performance is considerably lower than in the European Union (EU): only 38.4% of the working-age population was employed in 2015, compared to 65.4% on average in the EU and 67.6% in the OECD. The average share of the economically active population (all employed and unemployed persons who supply labour to produce economic goods and services) in the working-age population was 23% lower in the SEE economies than in the EU – 49.5% versus 72.5%.¹ The economies are also characterised by youth and long-term unemployment rates that are among the highest in Europe. High rates of informal employment are a further challenge, with harmful consequences for economic performance due to the inefficiency of the informal sector, loss of tax revenues, limited access to social protection, comparatively low wages, and workers' vulnerability when they lose their job or retire.

While growth-enhancing policies play an important role in increasing employment, they are not sufficient as they do not address the structural nature of the employment challenges in the assessed economies, characterised by high rates of youth unemployment, long-term unemployment, difficulties in integrating vulnerable groups – including female workers – into the labour market and high rates of informal employment. These will only be resolved by labour market policies that improve employment opportunities and yield better, more equitable outcomes for the working-age population. Employment policy can provide a framework of strategies, action plans, laws, measures and institutions that improve the functioning of labour markets, make them more inclusive, and enhance their ability to address the post-crisis and demographic challenges (World Bank/WIIW, 2017a).

In this *Competitiveness Outlook* assessment, the six economies score an average of 2.2 out of 5 for the employment policy dimension (Figure 8.1). This means that although strategies, action plans, laws, measures and institutions are mostly in place, further efforts are needed to implement them. Two economies – Albania and Serbia – score approximately 2.5, thanks to their relatively advanced overall employment policy implementation. Bosnia and Herzegovina,² the Former Yugoslav Republic of Macedonia and Montenegro score between 2 and 2.5, indicating that further progress is needed in implementation. Kosovo scores approximately 1.5, as it is in the final stages of adopting many of its strategies.

The six SEE economies generally do well when it comes to labour market governance, with an average score of 2.9, but they could do more to improve their performance in employment activation (average score 2.3) and job quality (average score 1.4). As for policies to promote the social economy, efforts are still nascent, with an average score of 0.9.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Figure 8.1. **Employment policy: Dimension and sub-dimension average scores**

Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

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Comparison with the 2016 assessment

In comparison with the 2016 assessment, several points deserve some attention. While overall employment rates have risen and unemployment rates fallen, the SEE economies are still facing structural challenges. Several changes have been made to the assessment framework since the last *Competitiveness Outlook*. There are two new sub-dimensions, activation policies and job quality, while the labour mobility sub-dimension has been removed. Several changes have also been made to the indicators.³

The main changes that have taken place since the 2016 assessment are likely to be due to the selected economies adopting and implementing new employment strategies (implementation began in 2016 and 2017). All six economies have adopted new legislation in several areas targeted at increasing the flexibility of labour markets. The 2016 assessment showed that on average, workers on permanent contracts in the SEE economies enjoy greater protection from individual and collective dismissals than in many OECD countries. Likewise, employment protection legislation is on average more restrictive for fixed term and temporary contracts in the SEE economies compared to the OECD average. While this aspect has not been assessed in this present report, this is unlikely to have changed much since 2016.

Achievements

Most of the assessed SEE economies have made efforts to design comprehensive employment frameworks through a consultative processes.

Most of the economies have relevant institutions in place, aiming to address their specific labour market challenges.

All the SEE economies are attempting to address structural unemployment through activation policies.

The SEE economies have started to consider developing social enterprises as a way of strengthening the development of the social economy so as to stimulate innovation and encourage the inclusion of vulnerable groups in labour markets.

Remaining challenges and key recommendations

- **Implement fully the measures set out in strategies and action plans.** Effective implementation is often hampered by a lack of funding and human resources, as well as weak co-ordination with other policies (e.g. education policies, tax policies).
- **Strengthen the capacities of social partners, in particular worker organisations,** which often lack the capacity to undertake analysis and to engage actively and constructively in a social dialogue with government.
- **Continue to tackle informal employment.** Although estimates put informal employment as high as 30% in some of the economies, measures to gradually coax informal workers into formal work are often lacking. Labour inspectorates do not have enough capacity, which further hampers detection and enforcement.
- **Improve activation policies** to increase the motivation and employability of the unemployed and to facilitate additional employment opportunities; and **create an effective institutional setup** able to co-ordinate delivery of a complex array of services. Activation policies are still insufficiently developed in most of the six economies and have limited impact. This is often due to poor targeting, disincentives for unemployed people to participate in activation measures, and ineffective policy design.
- **Strengthen the capacity and infrastructure of public employment services (PES), the key institutions implementing activation policies, to provide quality support.** Staff workloads are high (on average about 400 jobseekers for a single PES officer), which can seriously limit the implementation of active labour market policies.
- **Improve skills matching, and ensure that training measures are effective.** Current skills gaps analyses are limited in their coverage and data provided, and are seldom institutionalised or integrated into educational and employment systems.
- **Improve job quality by targeting the factors that affect earning, job security and the quality of the working environment.** Overall job quality is lower compared to the EU and OECD averages, reflected in low earnings, high labour market insecurity and poor working environments.
- **Further support social enterprise development.** Most of the assessed economies are currently either drafting legislation on social enterprises or have recently adopted it. Nevertheless, social enterprises generally do not play a role in their strategic frameworks, and in the implementation of support measures.

Context

Reducing unemployment and creating jobs are top priorities for all the economies covered by this publication. Employment policy relates to government activities, including strategies, action plans, laws, measures and institutions intended to promote full, productive and inclusive employment.

The SEE economies' weak labour markets are a serious source of social concern, as they undermine competitiveness in the medium and long term. Low rates of employment mean diminished production, while the long-term unemployed are at risk of losing occupational skills and struggling to find future work. High rates of unemployment are a

burden on public finances, as they lead to greater social spending on benefits for the jobless and can undermine social cohesion. Furthermore, very low youth employment rates impede the building of human capital and increase young people's dependency on support systems, thus diminishing the economies' long-term growth potential. Finally, high rates of informal unemployment are prompting concerns about worker protection, making it difficult for governments to deliver high-quality public services and are hindering productivity and growth (OECD, 2008).

Employment policy has significant links to other policy areas in the assessed economies. This chapter particularly relates to the following chapters of this *Competitiveness Outlook*:

- **Chapter 1. Investment policy and promotion** addresses the key factors facilitating investment, including employment policy. Research finds that more stringent employment protection legislation may deter foreign direct investment (FDI) (Dewit, Görg and Montagna, 2009) and that relaxing labour regulations may increase it. Moreover, FDI, which brings capital and technology, often leads to demand for skilled labour. Studies find that this can result in higher wages for skilled labour, which is a key job quality component (Hale and Xu, 2016).
- **Chapter 2. Trade policy and facilitation** can lead to diversification and global value chain integration, but it requires a flexible, motivated and well-qualified labour force. Activation policies can increase the labour force's motivation and incentives to actively seek employment opportunities, help job seekers to find suitable employment and increase employability through additional education and training. However, insufficiently developed activation policies can act as a constraint on integration into global value chains and on economic diversification. A flexible, motivated and well-qualified labour force is thus relevant for creating a favourable environment in which both domestic and foreign enterprises can better respond to changing trade circumstances.
- **Chapter 4. Tax policy** has an influence on the level of employment in an economy, as well as on other choices made by participants in the labour market. For example, labour taxation determines the difference between the total labour costs faced by employers and the real consumption wages received by employees, thus affecting labour demand and labour supply decisions. This may contribute to a reduction of the labour force by diminishing incentives to either work, or to work in the formal sector. Furthermore, tax policy can affect retirement decisions, the number of hours worked, decisions relating to employee training and career choice (including whether to be an employee or self-employed) (OECD, 2011).
- **Chapter 7. Education and competencies** largely determine the quality of a labour force. In a global economy that is becoming increasingly dependent on skills, countries with lower skill levels need to develop their human capital and be more competitive. However, attempts to boost workforce skills through vocational training without considering how they interact with labour market developments and policies are likely to be ineffective (OECD, 2015a). Moreover, it is important that economies avoid the “low skill equilibrium” trap which can develop in some areas where a concentration of employers in a region are pursuing price-based competition strategies, and rely on low-skilled and standardised production. This can often occur in more peripheral rural regions, drawing them into a vicious circle – it does not pay for people to invest in skills when skills are not valued by employers. At the same time, those who do acquire skills may move away to seek more appropriate jobs elsewhere (OECD, 2014a).

Employment policy assessment framework

The employment policy dimension in the 2018 *Competitiveness Outlook* examines the extent to which the assessed SEE governments have established competitive employment policies. Without seeking to be exhaustive, it considers four broad sub-dimensions that are critical to a healthy labour market and favour economic growth and well-being across the population:

1. Labour market governance: are there comprehensive strategies with corresponding action plans in place and do they sufficiently address key labour market issues? How effective are tripartism and social dialogue in addressing the concerns of all the relevant stakeholders in the labour market? Do policies seek to improve the labour inspectorate's capacity to address informal employment and other violations of labour law? Do policies address informal employment, and how far advanced are they?
2. Activation policies: are the existing activation policies designed efficiently and do jobseekers, particularly vulnerable groups, have sufficient motivation, employability and opportunities to integrate into the labour market? Do policies seek to improve the capacity of public employment services as the key institutions implementing active labour market policies? What measures are in place to assess the skills gap in the workforce, and are the results used in policy making? Are measures in place that would help individuals who have entered work – including low-paid workers – to remain and progress in work? What policies are in place to reduce youth unemployment?
3. Job quality: are there financial incentives in place that would improve the quality of earnings for needy families or individuals? Do policies sufficiently seek to ensure labour market security, measured in terms of unemployment risk and unemployment insurance? Are there measures in place to sufficiently encourage employee training, to improve the quality of employees' working environment, and to increase their productivity?
4. Social economy: do the SEE economies seek to encourage the social economy? What measures, if any, have they taken to create an enabling environment for social enterprises?

Figure 8.2 shows how the sub-dimensions and their constituent indicators make up the employment policy dimension assessment framework. The design of the framework is in line with the principal objective of the OECD Jobs Strategy: to promote policies and institutions that can foster sustained improvements in individual and social well-being through stronger labour market performance. The OECD Jobs Strategy takes a broad perspective by defining labour market performance in terms of three complementary pillars that are key for inclusive growth and well-being: 1) more and better jobs; 2) inclusive labour markets; and 3) adaptability and resilience.⁴

Each sub-dimension is assessed through quantitative and qualitative indicators. The OECD collected the qualitative and quantitative data for this dimension with the support of the SEE governments and their statistical offices. Quantitative indicators are based on national or international statistics. Qualitative indicators have been collected and scored in ascending order on a scale of 0 to 5, and are summarised in Annex 8.A1.⁵ For more details on the methodology underpinning this assessment please refer to the methodology chapter.

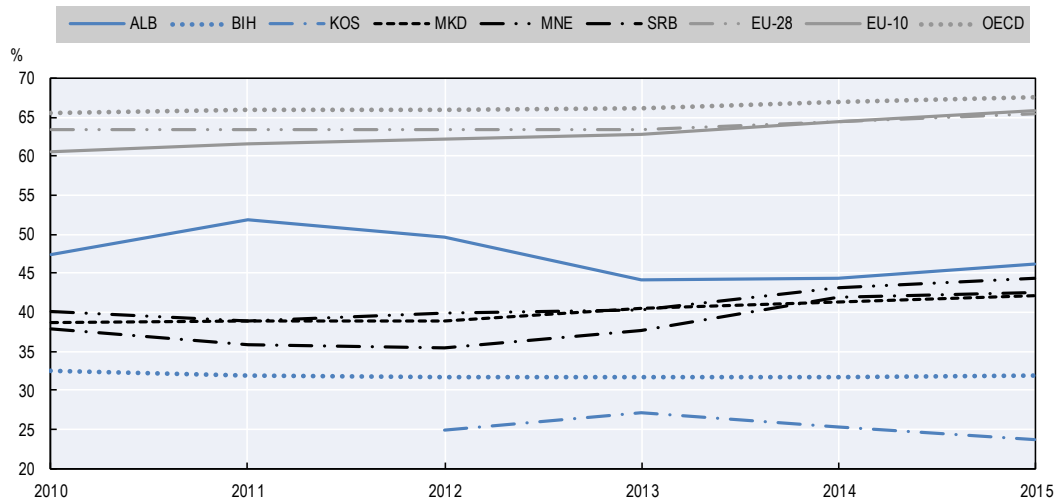
Figure 8.2. **Employment policy assessment framework**

Employment policy dimension			
Outcome indicators <ul style="list-style-type: none"> • Employment rate • Unemployment rate • Employment growth • Unemployment growth • Average real wages • Labour productivity 			
Sub-dimension 1 Labour market governance	Sub-dimension 2 Activation policies	Sub-dimension 3 Job quality	Sub-dimension 4 Social economy
Qualitative indicators <ol style="list-style-type: none"> 1. Employment framework 2. Tripartism and social dialogue 3. Labour inspectorate 4. Informal employment reduction 	Qualitative indicators <ol style="list-style-type: none"> 5. Public employment service (PES) 6. Skills gap analysis 7. Employment retention and advancement programmes 8. Youth employment 	Qualitative indicators <ol style="list-style-type: none"> 9. In-work benefits 10. Social assistance 11. Employee trainings 	Qualitative indicators <ol style="list-style-type: none"> 12. Social enterprises
Quantitative indicators <ol style="list-style-type: none"> 1. Informal employment rate 	Quantitative indicators <ol style="list-style-type: none"> 2. Economic activity rate 3. Long-term unemployment rate (12 months +) 4. Ratio of staff in public employment service to number of unemployed 5. Public expenditures on other active labour market policies (ALMP) 6. Youth unemployment rate 7. Young people not in employment, education or training (NEET) rate 	Quantitative indicators <ol style="list-style-type: none"> 8. Income inequality index 9. At-risk-of-poverty rate (after social transfers) 10. Inequality of income distribution ratio 11. Unemployed persons receiving unemployment benefits (contributory and non-contributory) 12. Public social protection expenditures (including health care) 	Quantitative indicators Not applicable in this assessment

Labour market performance in the SEE economies

Between 2012 and 2015, the number of jobs in the six economies increased by about 370 000, indicating an employment recovery. This is also reflected in changes to employment rates (Figure 8.3) – the share of employed persons in the total population above 15 years of age. Despite the recovery, employment rates are still lower on average in these economies than the EU and OECD averages.

Figure 8.3. **Employment rate at age 15 and above**
% of total working-age population



Note: Data not available for Kosovo for 2010 and 2011. EU-28 – all 28 EU Member States; EU-10 – Cyprus,* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The EU and OECD averages have been calculated as simple averages.

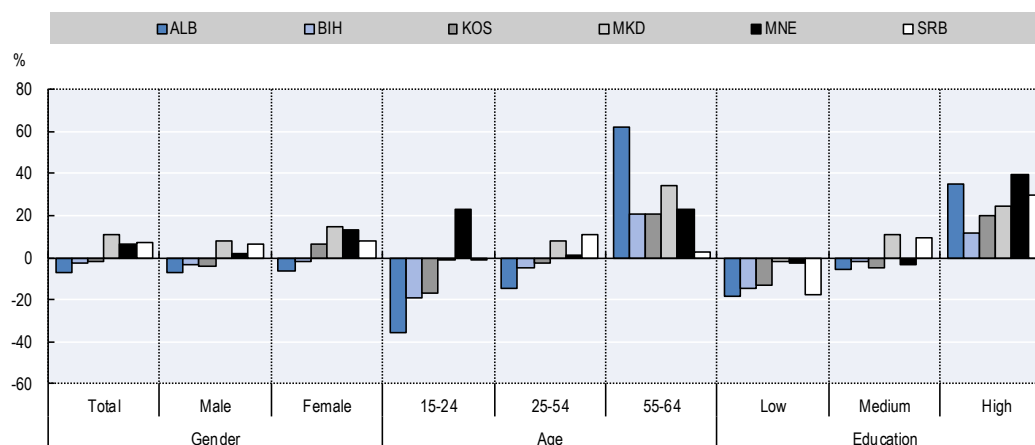
* Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: EC (2017b), *Employment and Unemployment (Labour Force Survey)* (Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts; OECD (2017), *OECD Data* (database), <https://data.oecd.org>.

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Breaking down employment growth by gender, age and education reveals important differences among the six SEE economies (Figure 8.4). While the employment growth among the female labour force between 2010 and 2015 is encouraging, the share of women in employment in the SEE economies, at 38.6% in 2015, remains lower than in EU economies such as Austria, where it is 47.2% (Table 8.1). The 15-24 age group exhibited negative employment growth rates for most of the SEE economies and constituted 7.4% of employment in 2015 on average among the six. This is significantly lower than in Austria, where the same age group constituted about 12.3% of the employment in 2015. For the 55-64 age cohort, high employment growth can also be explained by pension reforms in some of the economies. For example, regulations on early retirement in Serbia have become more restrictive since 2011 (Government of the Republic of Serbia, 2016). While the labour force with higher education increased between 2010 and 2015, the average share of labour force with higher education in employment is still only 23.2% in the SEE economies, compared to 33% in Austria. Particularly alarming are the negative employment rates in all six economies among less educated workers, given they make up a significant share of the labour force in employment: 21.1% in 2015.

Figure 8.4. Employment growth (2010-15)



Note: Data for Kosovo for 2010 refer to 2012. Level of education refers to the highest level completed, classified according to the 2011 International Standard Classification of Education (ISCED). Low refers to ISCED levels 1-2 (primary and lower secondary education); medium to ISCED levels 3-4 (upper secondary or post-secondary non-tertiary); and high to ISCED levels 5-8 (tertiary education).

Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts.

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Table 8.1. Distribution of employment (2015)

% in employment by gender, age and education

	Gender		Age			Education		
	Male	Female	15-24	25-54	55-64	Low (levels 0-2)	Medium (levels 3-4)	High (levels 5-8)
ALB	57.1	42.9	8.7	71.6	19.7	46.1	35.7	18.2
BIH	62.7	37.3	6.0	78.0	16.0	17.8	64.6	17.6
KOS	77.4	22.6	9.9	76.7	13.5	15.0	61.0	24.0
MKD	60.0	40.0	7.0	78.1	14.9	22.1	53.7	24.2
MNE	54.5	45.5	7.5	78.6	13.9	8.0	61.4	30.5
SRB	57.0	43.0	5.2	78.3	16.5	17.6	57.5	24.9
AUT	52.8	47.2	12.3	75.7	12.1	13.2	53.8	33.0

Note: AUT – Austria. Level of education refers to the highest level completed, classified according to the 2011 International Standard Classification of Education (ISCED). ISCED levels 1-2 refers to primary and lower secondary education; ISCED levels 3-4 refers to upper secondary or post-secondary non-tertiary; and ISCED levels 5-8 refers to tertiary education.

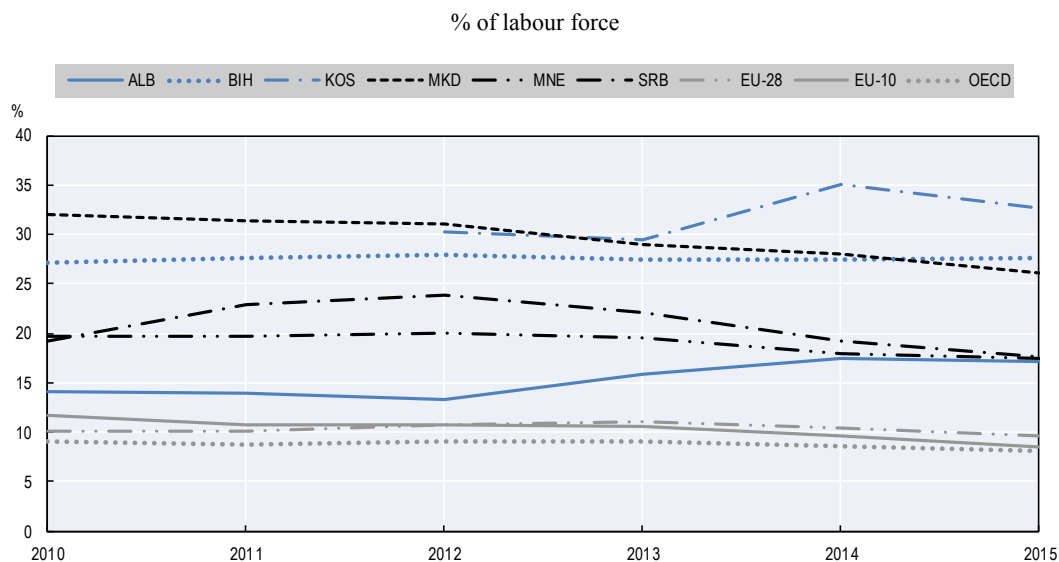
Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts.

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Unemployment rates in the six SEE economies, measured as the proportion of people in the labour force who do not have a job and are actively looking for work, are relatively high compared to the EU and OECD averages (Figure 8.5).

Looking at unemployment growth (Figure 8.6), the people most affected by rising unemployment rates in Albania, Bosnia and Herzegovina, and Kosovo are those aged between 55 and 64, and the more highly educated. On the other hand, these were also the two groups whose employment growth was the highest (Figure 8.4), compensating somewhat for the effects of rising unemployment.

Figure 8.5. Unemployment rates at age 15 and above

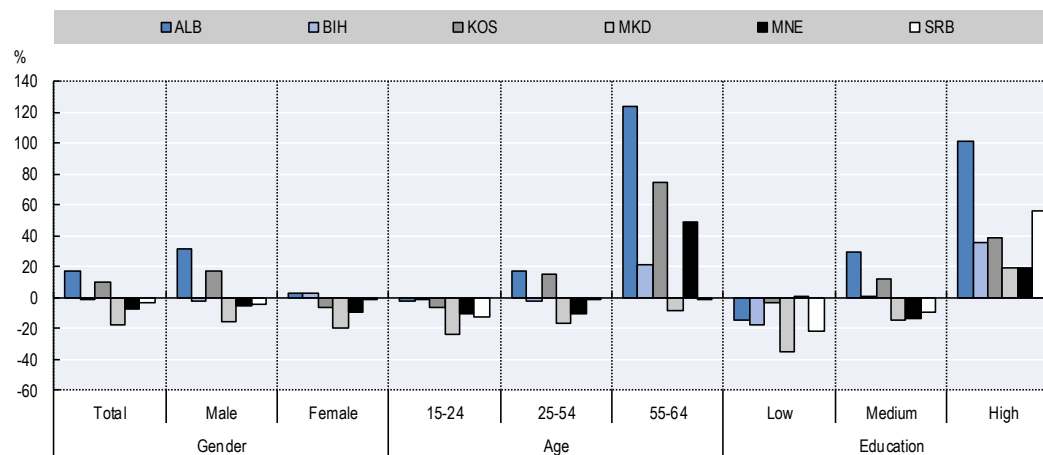


Note: Data not available for Kosovo for 2010 and 2011. EU-28 – all 28 EU Member States; EU-10 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The EU and OECD averages have been calculated as simple averages.

Source: EC (2017b), *Employment and Unemployment (Labour Force Survey)* (Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts; OECD (2017), *OECD Data* (database), <https://data.oecd.org>.

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Figure 8.6. Unemployment growth (2010-15)



Note: Data for Kosovo for 2010 refer to 2012. Level of education refers to the highest level completed, classified according to the 2011 International Standard Classification of Education (ISCED). Low refers to ISCED levels 1-2 (primary and lower secondary education); medium to ISCED levels 3-4 (upper secondary or post-secondary non-tertiary); and high to ISCED levels 5-8 (tertiary education).

Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts.

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The evidence suggests that labour market challenges are structural and that growth alone will not be enough to create the number and types of jobs needed in labour markets. Growth following recovery from the financial crisis has not been observed to significantly affect employment in the SEE economies, and the impact of growth on unemployment is small. In the EU, on the other hand, there has been a significant positive relationship between growth and employment (Kovtun et al., 2014; World Bank/WIIW, 2017a). This suggests that the SEE economies are not yet in a situation in which economic growth will guarantee a return to job growth.

Labour market governance

Labour market governance covers strategies, action plans, laws, measures and institutions that influence the demand and supply of labour (ILO, 2016a). Labour market governance is paramount in ensuring high-quality jobs, as well as developing flexible, socially inclusive and proactive labour markets. Having strong governance, clear directions, independent labour market regulation and enforcement can increase the responsiveness of labour markets and also give strong signals to investors.

The labour market governance sub-dimension is in this section using four qualitative indicators (Figure 8.7):

The **employment framework** indicator assesses whether there is a co-ordinated, strategic government approach to employment, and to what extent it has been implemented. While employment policy is a cross-cutting policy area, this indicator provides an overarching view of relevant employment strategies, action plans, laws, measures and institutions.

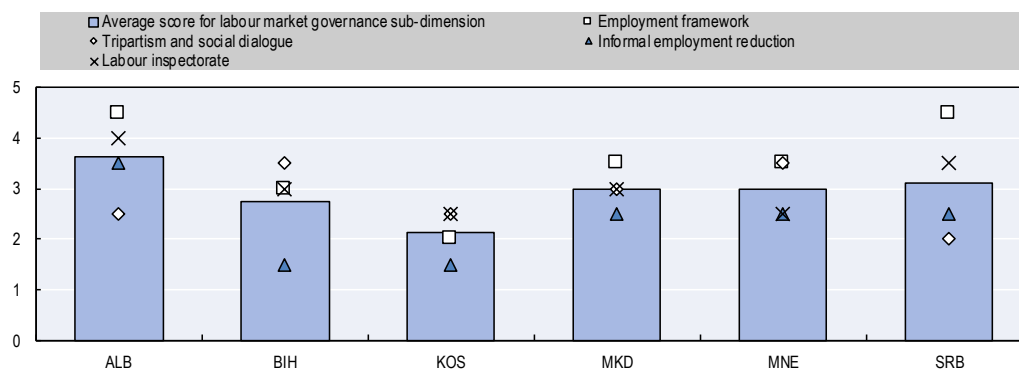
The **tripartism and social dialogue** indicator assesses the status quo of policy, legal and institutional frameworks with reference to industrial relations and effective social dialogue, as well as its level of implementation. In order to ensure that employment frameworks reflect and address the various concerns of all the relevant stakeholders, engagement by social partners – employers, workers and governments – is key (known as tripartism). This indicator aims to determine whether social partners are adequately included in social dialogue, whether there is a constructive dialogue taking place and whether tripartism has resulted in improving employment policies.

The **informal employment reduction** indicator examines the effectiveness and scope of programmes specifically targeted at reducing informal employment. This is a broad indicator, looking at all the relevant institutional, legal and policy frameworks in place, their degree of implementation, and monitoring.

The **labour inspectorate** indicator assesses the existence and effectiveness of labour inspectorates, and specifically their role in detecting and enforcing laws against informal work.

The six SEE economies' average score overall for the labour market governance sub-dimension is approximately 3, indicating that the economies have relevant policy, legal and institutional frameworks in place and have been implementing a range of measures. However, there are differences among the economies, with some being more advanced in their implementation than others. The more advanced economies regularly monitor implementation, including through external evaluations in some cases, and follow them up with corrective measures. This partially explains why Albania, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia score 3 or above, while Bosnia and Herzegovina scores 2.8 and Kosovo 2.1.

Figure 8.7. Labour market governance: Sub-dimension average scores and indicator scores



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

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Employment frameworks and tripartite dialogue exist and are being implemented to varying degrees

As seen in Figure 8.7 all the economies score 2 or above for the **employment framework** indicator, indicating that they have adopted a strategic approach to employment – either a specific employment strategy or one that combines it with related policy areas such as skills development. And, with the exception of Kosovo, they are all implementing measures as part of their strategies. The next step would be to improve their monitoring of progress against their implementation plans to identify if any corrective action is necessary.

While Kosovo has relevant legislation in place to regulate the functioning of the labour market, the draft Sectoral Strategy 2015-2020 on employment has not yet been adopted, which partially explains its low score for the employment framework indicator. Albania and Serbia both score 4.5 for this indicator. Albania has adopted the National Employment and Skills Strategy (NESS) 2014-2020, which has clear and measurable objectives, as well as defined actions and measures with timelines and budgets. Implementation is well underway and, while there is progress in many areas, more is required. Similarly, Serbia has made significant efforts to improve labour market functioning through its comprehensive National Strategy for Employment 2011-2020 and its yearly action plans, which are being implemented within their time frames and are regularly monitored. In both economies, there is good overall co-ordination with other institutions, social partners and other stakeholders.

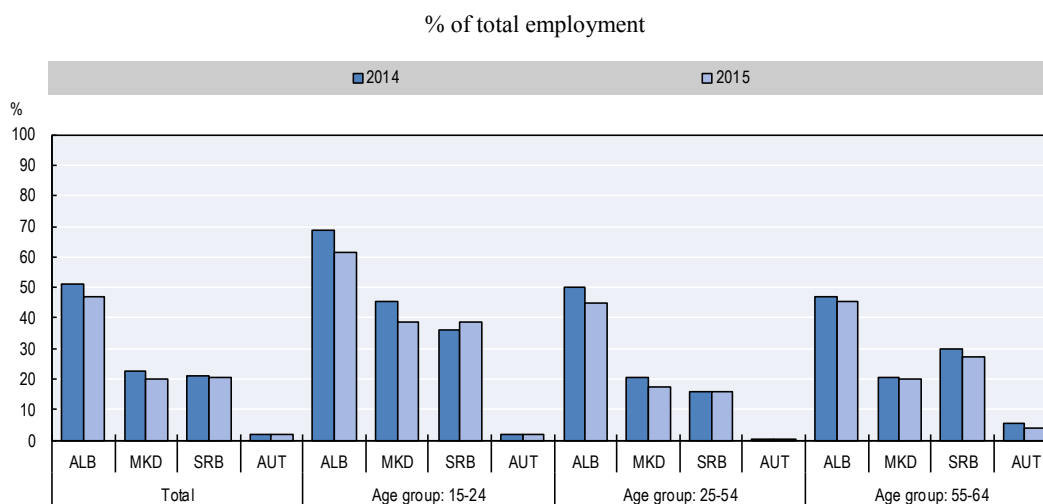
Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Montenegro score 3, 3.5 and 3.5, respectively. Overall, they are on the right track, with most of their respective strategies in place, implementation on the way, and internal monitoring regularly undertaken. In Bosnia and Herzegovina, the entities of the Republika Srpska and the Federation of Bosnia and Herzegovina govern the employment framework, while co-ordination and international co-operation takes place at state level. In the process of developing employment policies and strategies, the entity governments act autonomously, with no horizontal co-ordination between them. While the score reflects Bosnia and Herzegovina as a whole, there are differences between the entities. The Republika Srpska has adopted the new Employment Strategy 2016-2020, but the Federation of Bosnia and Herzegovina's Strategy for Employment 2009-2013 is now out of date. It has started drafting a new employment strategy, which is expected to be adopted in 2018.

Employers and workers should be able to express their views on employment-related issues. Having effective **tripartism and social dialogue** can facilitate participatory policy-making processes and link the government’s agenda with those of the economic actors on the ground (employers and workers). The average score for the tripartism and social dialogue indicator is 2.8. All six SEE economies have tripartite councils in place to engage in dialogue with social partners. While social dialogue does take place in all the economies, more effort is needed to build social partners’ capacity, in particular among worker organisations. Moreover, the impact of tripartism and social dialogue is not regularly evaluated by independent evaluators.

High informal employment continues to have a severe impact on labour markets

Informal employment can be broadly described as employment engaged in producing legal goods and services where one or more employment-related legal requirement is not complied with, including registering for social security, paying taxes or complying with labour regulations (OECD, 2008). Data on informal employment are hard to come by in the SEE economies, and it is only covered by labour force surveys in Albania, the Former Yugoslav Republic of Macedonia and Serbia. Among these three economies, in 2015 the share of informal employment in total employment was highest in Albania (46.7%), followed by Serbia (20.4%) and the Former Yugoslav Republic of Macedonia (19.9%). This is very high – for example in Austria the rate was 1.6%. Young people aged between 15 and 24 are particularly affected by informal employment (Figure 8.8.). Where informal jobs constitute a stepping stone towards formal careers for youth, a high incidence for this age group may not be a source of major concern. On the other hand, an informal career start can have a negative effect, often leading to inactivity. The OECD estimates for selected emerging economies show that informal jobs rarely lead to better employment opportunities, for example (OECD, 2015b).⁶

Figure 8.8. **Informal employment (2014 and 2015)**



Note: AUT – Austria.

Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts.

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Informal employment can have several negative consequences for the economy. First, workers employed in the informal sector have limited access to social protection, inadequate contracts and lower wages, and they are highly vulnerable when they lose their jobs or retire. High levels of informality may also reduce workers' access to training, exacerbating skills shortages. This ultimately generates greater inequalities, which is of particular concern in the SEE economies, where inequality is already high (Figure 8.17). Second, production in the informal sector is often inefficient, either because firms limit their size to avoid being detected or because they use outdated production technologies (Andrews et al., 2011). Firms operating in the informal sector also have limited access to finance and qualified labour. Third, high levels of informality reduce tax revenues. Many informal workers may also be receiving social benefits, adding to the fiscal burden on the state. Reducing informality might therefore result in bringing more taxpayers into the tax base. Finally, in addition to reducing tax revenues, complete or partial non-compliance with tax or security regulations can increase contribution rates for formal workers (e.g. higher labour taxes), or reduce the quality, targeting or coverage of public services and thus reduce further any incentives to formalise (OECD, 2015b).

One of the main causes of informality is high labour taxation. The assessed SEE economies impose relatively low corporate and personal income taxes; instead the tax mix is tilted toward indirect taxes and social security contributions (SSCs), which are levied at relatively high tax rates. High SSCs create a significant tax burden on labour income; they reduce employees' work incentives by reducing their after-tax earnings and make it expensive to hire workers, especially low-income and low-skilled workers. The larger the difference between total labour costs in the formal sector and after-tax disposable income for workers (the "tax wedge"), the greater the incentive for employers and employees to avoid taxes by remaining or joining the informal economy. Moreover, the average tax wedge is highly regressive in Albania, the Former Yugoslav Republic of Macedonia and Serbia at the bottom of the income distribution, meaning that the average contribution rate is higher for low-income workers (see Chapter 4, Tax policy).

Likewise, stricter employment protection legislation increases the incentives for informal employment in countries with limited enforcement capacity (OECD, 2008). While the general consensus is that stricter employment protection legislation is associated with higher rates of informality (Marshall, 2007), research also shows that this relationship is moderated by strong enforcement of labour regulation and good governance (Loayza and Rigolini, 2006). Nevertheless, the association between informal employment and stricter employment protection legislation can be most clearly seen in the business cycle (e.g. fluctuations in business demand or seasonal production schedules). Where regulations on temporary forms of employment are strict, allowing businesses to only hire fixed-term and temporary workers in exceptional circumstances, then informal employment is used to increase their flexibility in a business cycle upswing. By the same token, informal employees have less job security during economic downturns (OECD, 2008). The *Competitiveness Outlook 2016* assessment showed that on average, for fixed term and temporary contracts, legislation in the SEE economies – with the exception of Kosovo and Montenegro – remains more restrictive than in OECD member states (OECD, 2016e). Also, workers on permanent contracts enjoy greater protection from individual and collective dismissals in Albania, Bosnia and Herzegovina and Montenegro than in OECD countries.

While the average score of approximately 2.3 for the informal employment reduction indicator (Figure 8.7) suggests that the relevant institutional, legal or policy frameworks for reducing informal employment are in place, the SEE economies need to invest more effort in implementing them. Albania has the highest score (3.5) and shows the most concerted efforts in tackling informal employment. It recently adopted the Occupational Safety and Health Policy Document 2016-2020, which addresses informal employment to a significant degree. This document is complemented by the National Employment and Skills Strategy 2014-2020. In addition, the Albanian government launched a large campaign in 2015 to fight informality. The campaign involved a significant number of stakeholders and resulted in an increase in more than 70 000 new registrations as employees or self-employed. Bosnia and Herzegovina and Kosovo have the lowest scores, at 1.5 each. While legal provision and functioning institutions (e.g. labour inspectorates) that address informal employment are in place in both of Bosnia and Herzegovina's entities, their efforts are rather fragmented and do not address the issues systematically. Similarly, there is no coherent approach for tackling informal employment in Kosovo.

Labour inspectorates exist in all six economies, but face several limitations

The effective enforcement of labour regulations, combined with enforcing tax and social security regulations, and providing greater incentives for formalisation, are essential to combat informal employment. Labour inspectorates play an important enforcement role. Labour inspection is a complex activity, as labour standards are broad and often incorporated in numerous legal instruments, their application is spread throughout the state's territory and concern numerous issues. Inspection is also labour intensive and, though not expensive, does need resources, as it requires well-trained inspectors in order to function optimally. Labour inspectorates in transition economies in general are often plagued by internal problems, including limited numbers of inspectors, poorly paid staff, lack of training and capacity, lack of resources, and vulnerability to corruption (ILO, 2013a).

All six SEE economies have labour inspectorates. Their tasks include providing education and information on legislation requirements, preventing violations of labour standards by offering advice, and penalising offences. Labour legislation, offences and penalties are clearly defined and have been made easily accessible to employers. As indicated by the average score of approximately 3.1 for this indicator (Figure 8.7), labour inspectorates have been actively implementing their duties, including enforcing laws against informal work. The highest-scoring economies are Albania (4) and Serbia (3.5). Bosnia and Herzegovina scores 3, with well-functioning labour inspectorates in place in both entities – given the weak overall performance in tackling informal employment, this indicates that there is a good institutional base in place that needs to be complemented by other measures.

While labour inspectorates in the SEE economies overall have adequate structures, powers and facilities to monitor the enforcement of labour legislation, they still face challenges. These tend to be limited human resource capacities, a lack of modern equipment, a lack of preventative measures (e.g. awareness-raising activities), poorly organised visits due to a lack of registers, limited standard operating procedures and poor interaction with social partners (EC, 2014; ILO, 2013b, 2017a, 2017b, 2017c, 2017d). Bosnia and Herzegovina, for example, lacks adequate communication between the entities' inspectorates – their databases do not allow them to share data and information. This creates an opportunity for non-compliant employers to reproduce bad practices in different areas of the economy (ILO, 2013b).

The way forward for labour market governance

The assessed SEE economies should continue implementing employment strategies while addressing stakeholders' concerns, at both national and local levels. Specifically, in view of the low employment rates for women, the *OECD Recommendation on Gender Equality in Public Life* (OECD, 2016a) recommends that all economies should adopt a dual approach to gender equality: 1) make gender a mainstream part of the design, development, implementation and evaluation of all public policies and budget; and 2) level the playing field between men and women through actions that target specific forms of gender discrimination. Moreover, co-ordinating implementation better with other areas affecting employment would be welcome (e.g. tax policy, education policy and social policy). Finally, more efforts are needed to ensure regular and independent evaluations that lead to corrective measures. Kosovo would benefit from adopting an employment strategy that provides clear directions for implementing various measures. Likewise, Bosnia and Herzegovina would benefit from co-ordination between both entities on employment measures. To ensure this, the Federation of Bosnia and Herzegovina should adopt a new strategy, to be co-ordinated in turn with the Republika Srpska's Employment Strategy 2016-2020 at state level, in order to achieve a better impact for both entities and Bosnia and Herzegovina as a whole.

The economies should consider improving social partners' capacities, in particular workers' organisations, to ensure their active participation in social dialogue. This would strengthen the participatory process and could lead to better employment outcomes.

The six SEE governments need to make more effort to reduce informal employment. Bosnia and Herzegovina especially could benefit from a more coherent approach to addressing informal employment. While there are legal provisions in place, as well as functioning institutions (e.g. labour inspectorates) that address informal employment in both entities of Bosnia and Herzegovina, their efforts are rather fragmented and would benefit from better co-ordination of measures. In six SEE economies specific measures to reduce informal employment could include reducing the tax burden where possible, especially for wages, to create financial incentives for a transition to formal employment. Box 8.1 gives an example from Austria of a scheme that aims to bring selected professions from informal employment into a legal framework by providing them with a minimum level of social protection. The economies could also run awareness-raising campaigns on the benefits of social protection and public services.

The SEE economies should build the capacity of their labour inspectorates and use their existing resources more efficiently. This could be done by implementing or increasing the use of risk-assessment processes to better target inspections, and increasing co-ordination and information sharing among enforcement agencies (e.g. tax, social security and labour inspection agencies) (OECD, 2008). Overall, the six SEE governments should ensure that labour inspectors are independently monitored and that inspectorates adjust their practices according to their findings.

Activation policies

Activation is defined as a combination of mutually supporting policies for unemployed people (registered unemployed) or welfare benefit recipients who are able to work (ETF, 2011). For activation policies to be successful they need to give people the motivation and incentives to seek employment, to increase people's employability and to help them to find suitable employment, and to expand employment opportunities. The implementation

of activation policies can be managed through efficient labour market institutions, such as public employment services (OECD, 2016b).

Box 8.1. Good practice: Fighting informal unemployment with service employment cheques in Austria

In Austria, VAEB is a public insurance institute for railway and mining company employees. It is under the auspices of the Federal Ministry for Employment, Social Affairs and Consumer Protection, which deals with public health, annuity, and casual insurance. In 2005, VAEB introduced the “service employment cheque”, with the aim of bringing people from selected service professions from informal employment into a legal framework by providing them with a minimum level of social protection, such as casualty insurance, which would not be costly or administratively complex.

Since 1 January 2006, the Service Employment Cheque has served to formalise the employment relationships between people providing simple household services in private homes (employees) and people requiring such services (employers), provided the payment from the individual employer does not exceed the monthly minor employment threshold (in 2016 this was EUR 569.48). Selected services that qualify for the service employment cheque include cleaning work, childcare, grocery shopping and simple garden maintenance (such as sweeping leaves, cutting grass).

Employers can buy the service employment cheques at newsagents, VAEB, post offices or online, paying EUR 10.2 for a cheque worth EUR 10. The extra 2% pays for casualty insurance (1.3%) and administrative costs (0.7%). Service employment cheques are also available in other values, up to EUR 100 per cheque. On top of the statutory casualty insurance, employees can opt in to voluntary health and annuity insurance, at a monthly rate of EUR 58.68. Service employment cheques have been a great success, with rapid growth in the amounts both sold and redeemed between 2006 and 2015. The total value of cheques sold grew from EUR 997 432 in 2006 to EUR 7.8 million in 2015, and those redeemed grew from EUR 872 427 in 2006 to EUR 7.6 million in 2015.

Source: World Bank/WIIW (2017c), “Lessons learned from fighting informal employment in Austria and Sweden: Social security vouchers for the service sector and addressing under-reporting of hours worked”, www.seejobsgateway.net/document/lessons-learned-fighting-informal-employment-austria-and-sweden-social-security-vouchers.

Building on the approach taken by Brown and Koettl (2012), activation policies can be broadly classified as interventions 1) targeting the demand side of the labour market, i.e. incentives for retaining and creating employment; 2) targeting the supply side of the labour market, i.e. incentives for seeking and keeping jobs and for human capital enhancement; and 3) improving labour market matching between the demand and supply sides. The first group includes financial incentives for employers to either keep the employment relationship with workers in order to prevent and/or reduce employment outflow, or to create new jobs in order to increase employment inflow, such as wage subsidies, self-employment incentives and other measures. The second group includes various financial transfers, or subsidies designed as income supplement, public works, training or other measures to improve labour skills and competencies. The third group is about labour market matching, which is a form of job brokerage between employers and job seekers. The main policy instruments within this group are job search assistance, counselling, monitoring and employer intermediation services. In addition, youth-oriented programmes and programmes intended for people with disabilities are recognised as a separate measure in some classifications (Lehmann and Kluge, 2008). Public employment

services (PESs) are the leading institutions that implement activation policies, in co-ordination with the other relevant institutions and stakeholders.

This sub-dimension assesses the policy, legal and institutional arrangements for activation policies, as well as relevant programmes and measures. Four qualitative indicators are used for this sub-dimension:

The **public employment services** indicator assesses the capacity of the PES to operate active labour market policies (ALMPs).

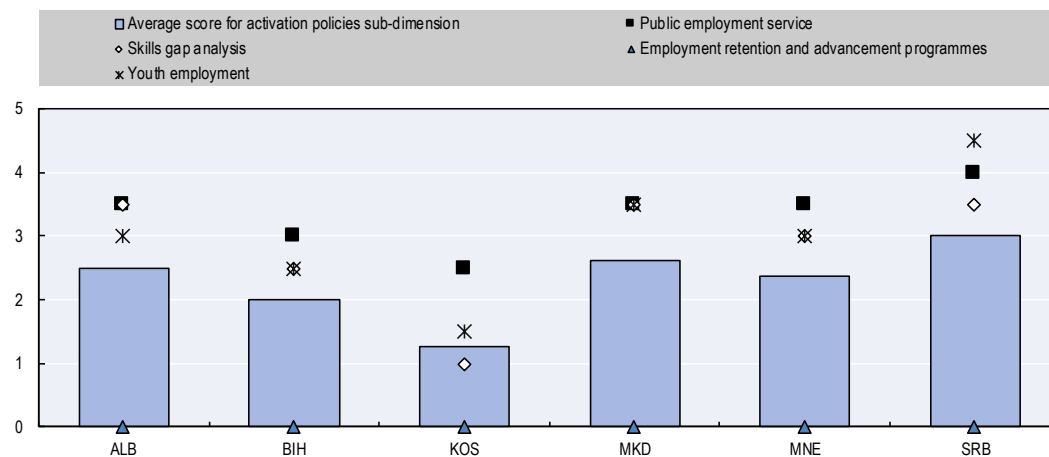
The **skills gap analysis** indicator measures the extent to which an economy conducts skills gaps analysis, as well as the extent to which the analysis informs policy making.

The **employment retention and advancement programmes** indicator measures the extent to which the SEE economies apply a combination of services to help unemployed individuals who have entered work as well as low-paid workers to remain and progress in work. These services combine job coaching and advisory services with financial incentives rewarding sustained full-time work, as well as completing training or education whilst employed (Sianesi, 2011).

The **youth employment** indicator examines the effectiveness and scope of policy, legal and institutional frameworks specifically targeting youth unemployment.

Overall, legal, institutional and policy frameworks for active labour market policies are in place throughout the six SEE economies (Figure 8.9), reflected in the average score across the economies of 2.3. This indicates that relevant measures are being implemented, but that more efforts are needed to increase PES capacities, improve targeting and co-ordinate better with other areas (e.g. social and education policy). All economies score 0 for the employment retention and advancement programmes indicator because the OECD assessment found that none of them have these programmes.

Figure 8.9. **Activation policies: Sub-dimension average score and indicator scores**



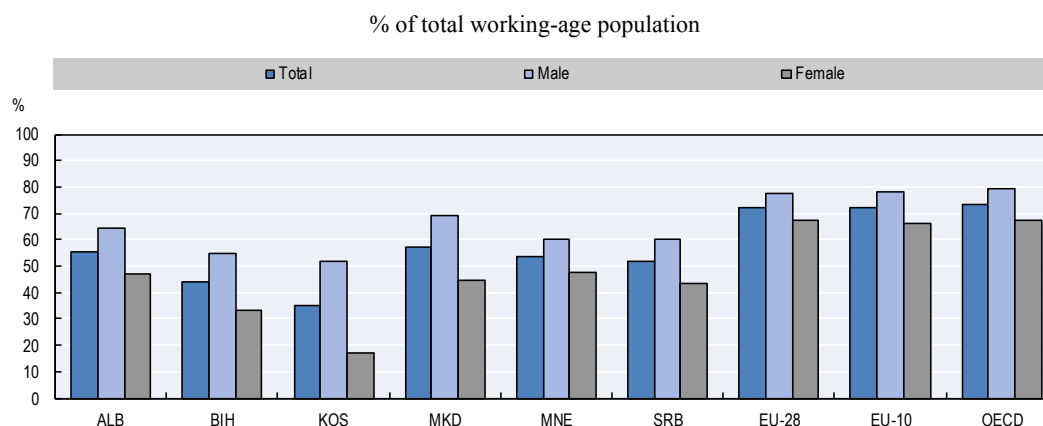
Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

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SEE economies are facing significant challenges in activating their labour force

Figure 8.10 shows that the share of economically active people in the total working-age population is larger in the EU and the OECD than in the assessed SEE economies.

Figure 8.10. Economic activity rate for the 15-64 age group (2015)



Note: EU-28 – all 28 EU Member States; EU-10 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The EU and OECD averages have been calculated as simple averages.

Source: EC (2017b), *Employment and Unemployment (Labour Force Survey)* (Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts; OECD (2017), *OECD Data* (database), <https://data.oecd.org>.

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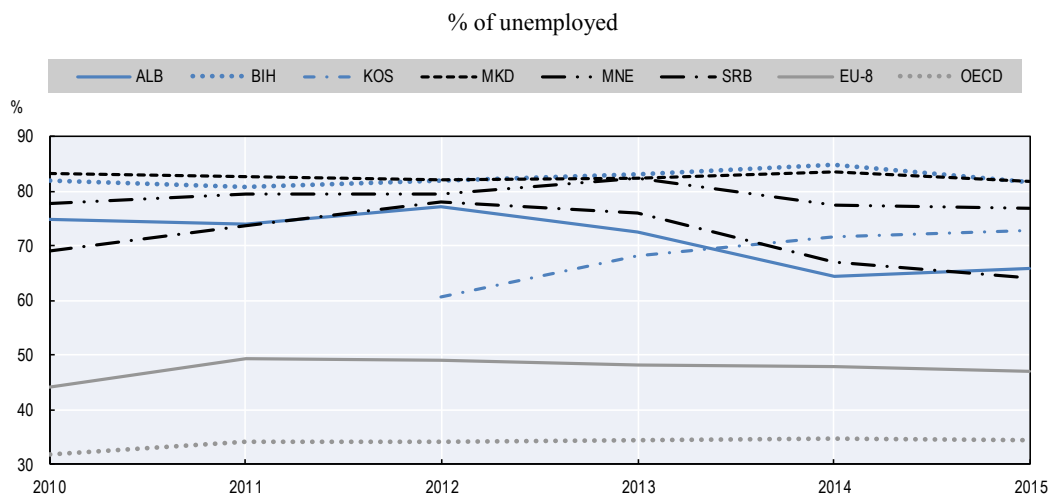
The economic activity rate for the EU-28, EU-10 and the OECD for people aged 15-64 was above 70% in 2015. For the six SEE economies, the average rate was 49.5%, and in Kosovo only 35.1%. Economic activity rates in these economies are mainly suppressed due to gender inequality. In 2015, economic activity rates for men were about 60%, while for women they were about 40%. This is in sharp contrast to the EU and the OECD average economic activity rates, where gender differences were less pronounced.

Long-term unemployment is another serious issue in these SEE economies (Figure 8.11). Unemployment tends to have more severe effects the longer it lasts (OECD, 2013). Long-term unemployment can lead to loss of skills, self-confidence and motivation, and translate into acute social and health problems that sap the ability to work and look for a job (OECD, 2014b). Without well-targeted support through activation policies there is a substantial risk that the long-term unemployed will exit the labour market altogether.

The incidence of long-term unemployment, measured as a share of the labour force, is highest among the youngest cohort (Figure 8.12).

While all six SEE economies have been implementing various active labour market policies (ALMPs), public expenditure for these measures as a share of gross domestic product (GDP) is low compared to EU economies. In 2013 the six SEE economies, excluding Kosovo, spent on average 0.1% of their GDP on ALMPs. This is significantly lower than average expenditure in the EU (0.46% of GDP) and OECD (0.6% of GDP) in 2011 (the last year for which aggregate data are available) (Numanović, 2016).

Figure 8.11. Share of long-term unemployment (12 months +)

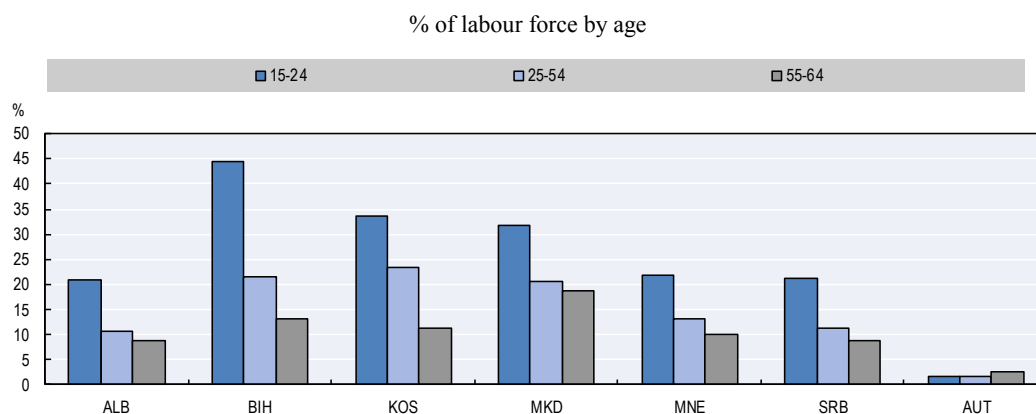


Note: Data not available for Kosovo for the years 2010 and 2011. EU-8 – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia. The OECD average excludes Chile. The EU and OECD averages have been calculated as simple averages.

Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts; OECD (2017), *OECD Data* (database), <https://data.oecd.org>.

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Figure 8.12. Long-term unemployment rate (12 months +) in 2015



Note: AUT – Austria.

Source: World Bank/WIIW (2017b), *SEE Jobs Gateway* (database), www.seejobsgateway.net/charts.

StatLink <http://dx.doi.org/10.1787/888933704530>

The portfolio of ALMPs in the SEE economies is also rather limited. By dividing ALMPs into employment subsidies, self-employment/start-up support, training and provision of public works/public sector jobs, the analysis shows that in Albania, Bosnia and Herzegovina, and the Former Yugoslav Republic of Macedonia, ALMP spending is predominantly on employment subsidies (Table 8.2). While these mainly affect cyclical unemployment, they are less effective at addressing structural unemployment. Given the structural challenges labour markets are facing in these economies, spending on employment

subsidy measures may not be justified. Moreover, such measures can encourage employers to lower labour costs without having an impact on labour market performance (Numanović, 2016). Table 8.3 shows a similar picture to that in Table 8.2: the greatest share of participants benefit from employment subsidies, except in the Former Yugoslav Republic of Macedonia, where the largest share are in training programmes.

Table 8.2. **Active labour market policies (expenditure) in 2015**

	% of total expenditure			
	Employment subsidies	Self-employment/start-up support	Training	Public work/public sector jobs
ALB	68	n/a	32	n/a
BIH	71	15	10	4
MKD	38	32	28	2

Note: Data unavailable for KOS, MNE and SRB. N/a – not applicable.

Source: Numanović (2016), “Weak labour markets, weak policy responses: Active labour market policies in Albania, Bosnia and Herzegovina and Macedonia”, www.analitika.ba/en/publications/weak-labour-markets-weak-policy-responses-active-labour-market-policies-albania-bosnia.

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Table 8.3. **Active labour market policies (participants) in 2015**

	% of all participants			
	Employment subsidies	Self-employment and start-up support	Training	Public work/public sector jobs
ALB	79	n/a	21	n/a
BIH	62	12	18	9
MKD	35	6	57	2
OECD	50	3	36	11

Note: Data unavailable for KOS, MNE and SRB. N/a – not applicable.

Source: Numanović (2016), “Weak labour markets, weak policy responses: Active labour market policies in Albania, Bosnia and Herzegovina and Macedonia”, www.analitika.ba/en/publications/weak-labour-markets-weak-policy-responses-active-labour-market-policies-albania-bosnia.

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Overall, ALMP coverage is low in these three economies compared to the EU and OECD average, both as a share of the unemployed and as a share of the labour force (Table 8.4). Participation in ALMPs is mainly optional – people can apply following an open announcement. The economies lack a well-established institutional mechanism to guide unemployed individuals through the employment process, steering their participation according to their needs (Numanović, 2016).

Table 8.4. **Active labour market policies (coverage)**

	Coverage rate of unemployed people (%)	Coverage rate of total labour force (%)
ALB (2015)	13.5	1.5
BIH (2014)	2.4	1.0
MKD (2015)	6.5	1.7
EU (2014)	41.7	4.4
OECD (2014)	46.3	3.7

Source: Numanović (2016), “Weak labour markets, weak policy responses: Active labour market policies in Albania, Bosnia and Herzegovina and Macedonia”, www.analitika.ba/en/publications/weak-labour-markets-weak-policy-responses-active-labour-market-policies-albania-bosnia.

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Public employment services need greater capacity to improve the impact of activation policies

The public employment services in the SEE economies still have many limitations which hamper the effective implementation of their activation policies.

In terms of performance against the public employment services indicator, all the economies have PESs in place, institutional co-ordination between national and sub-national government bodies is good and all are implementing ALMPs. This results in an average score of 3.3 (Figure 8.9). Overall, however, they lack the capacity and infrastructure to implement active labour market policies fully, as explained above. Not all the economies have independent impact assessments in place to inform policy framework design and implementation updates. Kosovo scores the lowest, 2.5, mainly because it currently has no functioning central employment agency. While the agency should start functioning soon, its role is currently carried out by the Ministry of Labour and Social Welfare and local employment offices, which operate within their own legally defined mandates. Although PESs drive activation policies in all the economies, for those policies to succeed it is crucial that other actors are also involved. These should include responsible ministries, social partners, social welfare centres, educational establishments, local authorities and employers.

The eligibility criteria for registering with public employment services are usually defined in the country's legislation on employment and unemployment-related benefits. It is important that the criteria filter out those who may be working in the informal economy or have no intention of accepting work – otherwise there is too much pressure on the employment service to make sure that those who register adhere to the active job search rules and are available for work. Overall, in the assessed SEE economies the eligibility criteria tend to be rather liberal, however, and there is often no clear distinction in status between the employed, the unemployed or the inactive. While in principle it is desirable that PESs are accessible to anyone looking for a job, regardless of their previous position on the labour market, it is also important to exclude people who are actually working, or to give them jobseeker rather than unemployment status (ETF, 2011).

There also tends to be an overlap in the SEE economies between unemployment status and social benefits, including unemployment benefits, health insurance, various social welfare benefits, child benefits, maternity/paternity benefits, war veterans' allowance and other potential benefits. This is one of the reasons people often seek unemployment status. For example, when health insurance or benefits for a particular population group, such as war veterans, are also linked to unemployment status, they cannot be easily revoked by non-compliance measures, hence activation measures have a limited impact. Also, this places an additional administrative burden on PES staff.

Compliance with the PES requirements (by reducing benefits in the case of non-compliance) seems to be rather weakly enforced across the economies. Serbia, which has the highest overall score for this indicator, has explicit penalties for someone who refuses to participate in a training programme or turns down a job offer but enforcement appears to be weak. This is due to the lack of communication between the PES, the centre for social welfare and the service provider (e.g. training programmes, public works) (World Bank, 2013).

Some studies have shown that employment agency staff in the SEE economies spend most of their time registering clients and providing basic information (Tomev and Meinardus, 2012). Their heavy workload seriously inhibits the effectiveness of activation

policies. The client-to-staff ratio in Albania, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia is about 400:1 (i.e. 400 jobseekers for every staff member), which significantly deviates from the 100:1 ratio recommended by the International Labour Organization (ILO) (Kuddo, 2012). Moreover, there are many fewer counsellors responsible for developing client relationships than other staff (e.g. administrative staff). When managers at various levels are included, then the number of counsellors may be less than 40% of the total, yet they carry about 80% of the responsibility for the successful delivery of typical PES objectives. As a consequence, the case load is extremely high, preventing the PES staff from providing efficient job brokering, job search assistance through intensive counselling interviews or job search monitoring and verification (ETF, 2011). Recent evidence from a German experiment suggests that reducing client-to-staff ratios enables a more personalised service, which in turn has a positive impact on employment. In the experiment, 14 local PES offices hired additional caseworkers to lower the client-to-staff ratio to an average of 70:1 (from the usual 80:1 to 250:1) to improve the quality of placement services, resulting in shorter unemployment benefit durations in the participating PES offices. The costs of hiring additional caseworkers were offset by decreased benefit expenditure after a period of about ten months (OECD, 2016d).

Gaining employers' trust is a precondition for a PES to function as a competent job broker. This is not easy, because employers often have negative perceptions of the PES. Employers may perceive jobseekers referred by the PES as less motivated and trustworthy than other jobseekers and suspect that the PES is concealing important information in attempting to reintegrate an individual into the labour market (Larsen and Vesan, 2012). The lack of quality service provision to enterprises affects the PES's reputation with employers in the assessed economies. The lack of coherent strategies for attracting employers to the service also contributes to the poor quality of vacancies offered by the PES. Most registered vacancies, in fact, are for unskilled and low-paid jobs, or for work in dangerous conditions; these make them unattractive to unemployed clients and especially to young people.

Skills gap analyses are used to design training schemes, but require better integration into overall employment and education policies

Skills gap analysis is a method of identifying and assessing gaps and mismatches between the skills people have and those needed in the workplace. It can also include sectoral-specific assessments of skill needs, qualitative and quantitative forecasts and foresight exercises (ETF, 2016). Skills-matching ensures that training measures are effective and can result in increased job placement rates. On a broader level, it can also contribute to more effective investment in human capital by individuals, governments and businesses (Box 8.2). Public employment services are the main institutions to provide this type of labour market information for human resource purposes. The ultimate beneficiary should be the central government administration responsible for developing human resources.

Most of the assessed SEE economies conduct some form of skills gap analysis, although in Kosovo these mainly are done through donor-financed projects without any policy framework systemically addressing the issue. In most of them, the PES researches employers' needs (mainly through business surveys) to assess occupation levels and types, specialist knowledge and experience. All six SEE economies indicate that they use the findings from skills analysis to design short-term training schemes to help workers acquire the skills needed on the labour market, as confirmed by the average score of 2.8 (Figure 8.9).

Done correctly, skills assessments and anticipation exercises can inform how occupational standards are updated or on-the-job and retraining courses developed. Occupational standards, for example, identify the skills, qualifications and experience required to perform an occupation. They are then used to develop curricula and qualifications for quality assurance or to guide firms' human development strategies, among other uses. In the United Kingdom, identified skill needs feed into the National Occupation Standards to fast track the development of standards in new occupations or occupations with changing skill requirements. In Australia, Austria, Belgium (Flanders and Wallonia) the Czech Republic, Denmark, France, Japan and Portugal, skills assessments and anticipation exercises are used to inform re-training, on-the-job training programmes and/or apprenticeship schemes. The results can also feed into education policy. In Norway, for example, an expected lack of engineers, teachers and health professionals was an important factor in deciding the offer of post-secondary education vacancies (OECD, 2016c).

Box 8.2. Good practice: The Expert Group on Future Skills Needs in Ireland

The Expert Group on Future Skills Needs (EGFSN) in Ireland advises the Irish government on the economy's current and future skills needs. Composed of experts from industry, education and training, and unions, it has a central role in ensuring that labour market needs for skilled workers are anticipated and met.

Established in 1997, the EGFSN reports to the Minister for Jobs, Enterprise and Innovation and the Minister for Education and Skills. Forfás, Ireland's policy advisory board for enterprise, trade, science, technology and innovation, in conjunction with FÁS, the National Training Authority, provides the EGFSN with research and analysis support. The FÁS Skills and Labour Market Research Unit provides the group with data, analysis and research and manages the National Skills Database.

The Expert Group on Future Skills Needs provides advice to the government on skills issues that affect enterprises through skills foresight and benchmarking, strategic advice on building skills through education and training, and data collection and analysis on the demand and supply of skilled labour.

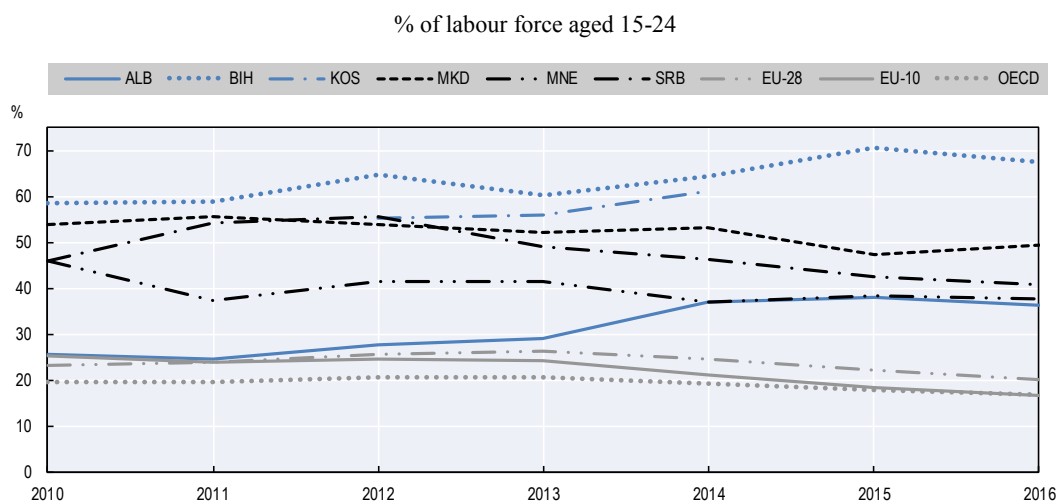
Some of the outcomes include the Action Plan for Jobs 2012-2015, ICT Skills Action Plan 2014, Strategy for the Manufacturing Sector to 2020, Trade Tourism and Investment Strategy, Further Education and Training and Higher Education Strategies, and Migration Policy: Eligible Occupations.

Source: EGFSN (2017), "About us", www.skillsireland.ie/About-Us.

Youth unemployment needs to be further addressed

A person's first experience of employment has a profound influence on their later working life. Getting off to a good start helps young people take their place in the labour market and lays the foundations for a good career. By contrast, it can be hard to make up for first-time failure (OECD, 2014b). Reducing youth unemployment is thus crucial in the SEE economies (Figure 8.13). Weak job creation in the region leads to difficult school-to-work transitions and most young people enter the labour market only after an initial spell of unemployment.

Figure 8.13. Youth unemployment rate for 15-24 age group (2010-15)



Note: Data for Kosovo not available for the years 2010, 2011, 2015 and 2016. EU-28 – all 28 EU Member States; EU-10 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The EU and OECD averages have been calculated as simple averages.

Source: World Bank (2017a), “Unemployment, youth total (% of total labor force ages 15-24) (modelled ILO estimate)”, *World Development Indicators* (database), <http://databank.worldbank.org/data/reports.aspx?source=2&series=SL.UEM.1524.ZS&country=#>; ASK (2017), *Labour Market* (database), <http://askdata.rks-gov.net/PXWeb/pxweb/en/askdata>.

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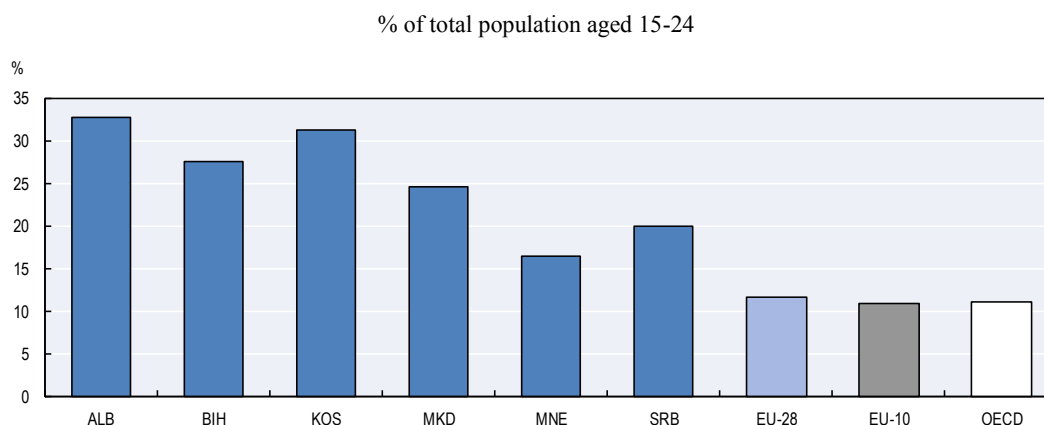
Furthermore, young people need to participate in employment, education or training if they are to take their place in the labour market and be self-sufficient. Most economies focus on youth unemployment alone, but this underestimates how vulnerable young people can be. Broadening the perspective to those not in education or training affords a better insight into the challenges they face. With the exception of Montenegro, the share of young people not in employment, education or training (NEET) in the SEE economies is almost double the EU and OECD averages (Figure 8.14). Young NEETs are considered “at risk”: being jobless, inactive and with no access to learning.

Measures to reduce youth unemployment include targeted training and various job creation schemes (Box 8.3). Most of the assessed SEE economies have various legal, institutional and policy frameworks to address the issue of rising youth unemployment. While overall, implementation of measures to reduce youth unemployment is well under way, not all the areas set out in strategies and action plans are being implemented in full. This leads to an average score of 3 for the six economies (Figure 8.9). Kosovo scores only 1.5. Its youth unemployment programmes are mainly implemented by donors in an uncoordinated manner – a worrying situation as Kosovo’s youth unemployment rate is the highest in the region. The new Sectoral Strategy 2015-2020 has not yet been adopted and there is no strategic framework to guide the implementation of various measures. It is expected that the strategy will have an action plan dedicated specifically to youth.

Serbia has the highest score, at 4.5. As part of its National Strategy for Employment 2011-2020, it has been improving youth unemployment targeting efforts based on impact evaluation. For example, the National Action Plan 2017 places a greater focus on specific groups of young people, such as people under 30 years of age with no or few qualifications,

or young people who have been looking for a job for more than 12 months (long-term unemployed), as well as orphans. Most of the SEE economies are monitoring their own strategies and actions plans; nevertheless, more needs to be done to revise their programmes on the basis of a regular independent impact assessment.

Figure 8.14. **Not in employment, education or training at age 15-24 (2015)**



Note: EU-28 – all 28 EU Member States; EU-10 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The OECD average does not include Korea. The EU and OECD averages have been calculated as simple averages.

Source: ILO (2017e), *Key Indicators of the Labour Market* (database), www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/lang--en/index.htm.

StatLink  <http://dx.doi.org/10.1787/888933704568>

Box 8.3. Good practice: Support for youth in Brandenburg, Germany

Since 1999, ENTERPRISE has been supporting young people in starting their own business. ENTERPRISE is an initiative of *iq consult*, a social enterprise working on the development of concepts in business start-up support, regional development and cultural industries. The aim of ENTERPRISE is to respond to high unemployment rates in the federal state of Brandenburg, eastern Germany, and to growing numbers of young people leaving the region to find work elsewhere in Germany.

The project provides youth with optimal conditions for planning, starting and running their own business. It offers young entrepreneurs a mixture of individual face-to-face support from a business advisor, group learning in workshops and their first working experience in the enterprise business incubator, to help shape their ideas. As many participants in the project also need additional financial means in order to realise their concept, ENTERPRISE offers micro-loans from a special fund or facilitates contact with local financial institutions. To this end, ENTERPRISE organises networking events where young business starters get together with regional firms. ENTERPRISE has offices in different locations in Brandenburg and in Berlin.

The initiative has an operational annual budget of EUR 25 000 and six business advisors and trainers. Partners involved in the project include the Ministry of Labour of the Federal State of Brandenburg, local municipalities, the Department for Business Development, financial institutions, Chambers of Commerce, Chamber of Crafts, regional business networks and local youth organisations. The project has supported over 300 start-ups.

Source: OECD (2009), “Shooting for the moon: Good practices in local youth entrepreneurship support”, www.oecd.org/cfe/leed/45204509.pdf.

The way forward for activation policies

Activation policies in the six SEE economies need to address the three pillars of motivation, employability and opportunities, and be backed up by an institutional setup able to co-ordinate the delivery of a complex array of services. A number of tools need to be mobilised to achieve this (ETF, 2011; Numanović, 2016; OECD, 2015b, 2016a):

- **Eligibility criteria should ensure that recipients of unemployment benefits are available for work**, in other words that they are contactable and ready to accept suitable jobs. Benefits may reduce motivation, unless they are conditional on active job searching and being available for suitable jobs.
- **Economies should improve the targeting of their activation measures** in order to reach the most vulnerable and hard-to-employ people in the labour market, and to tackle important challenges such as youth unemployment, low rates of labour market participation among women and long-term unemployment. Given women's low employment rates, it is important to develop and implement a gender mainstreaming approach, and combine this with targeted approaches for disadvantaged women (low-skilled women, women with family duties) to increase their employability.
- **Participation in ALMP programmes should be more personalised** and adapted to individual needs.
- **The six SEE economies should expand and diversify their ALMP portfolios.** The employment subsidies and related measures that currently dominate financing should be complemented with other measures, such as training. This support should be combined with stricter measures to tackle informal employment and to ensure that jobseekers are actively searching and available for work.

The SEE economies could consider increasing the capacity of their public employment services and the ratio of staff to jobseekers. This would reduce their workload and ensure more effective implementation of activation policies. Bosnia and Herzegovina, for example, would also benefit from improved co-ordination efforts between the PESs in the Republika Srpska and the Federation of Bosnia and Herzegovina, providing a platform for mutual learning and exchanging practices. In Kosovo, on the other hand, it is imperative to get the central PES functioning to take the pressure off the Ministry of Labour and Social Welfare. More specifically, PES in all the economies could consider (Duell et al., 2016; OECD, 2015b):

- **Improving their job brokerage services.** Job-search assistance through intensive counselling interviews needs to be high quality and personalised, a take work-first approach but with a preference for stable jobs where possible. Selective referrals to full-time activation programmes are also required. Job-search monitoring and verification can have a considerable impact on re-employment rates. At the same time, matching and referring jobseekers with vacancies often proves effective in increasing the rate of re-employment, especially for jobseekers who are hard to place or still unemployed after a period of independent job searching.
- **Further strengthening and developing services to employers** in order to advertise more vacancies and improve the reputation of PES as a reliable service provider for employers.

- **Introducing e-services like e-coaching**, which can be used to reach out and serve certain target groups and help make the work of the PES more efficient. In the Netherlands in 2010, the PES redesigned its service to interact with jobseekers only via digital services during their first three months of unemployment. The PES then offers personal face-to-face or telephone interviews in the fourth month, and the 10% most disadvantaged jobseekers are entitled to receive more intensive support through individual or group coaching from the fourth month onwards. Other jobseekers have access to e-coaching and other general e-services. Customers who cannot use online services (even with help) get services in local offices.
- **Establishing specialised units or case managers for specific groups** (e.g. young people, people with disabilities) and should co-operate more with institutions (such as social enterprises and NGOs) that specialise in working with disadvantaged and vulnerable groups in order to take advantage of their expertise.
- **Regularly undertaking performance evaluations** to determine the cost-effectiveness of implementing activation policies.

The assessed SEE economies would also benefit from developing a wider range of instruments to measure and anticipate skills needs, while at the same time ensuring that representative data are collected regularly. In the long run, it would be useful to use the findings of skills gap analyses to improve employment policies, as well as to inform the education system so that students are better equipped to enter the workplace.

The economies could consider further measures to reduce youth unemployment, such as reforming labour regulations and labour taxation, reducing skills mismatches, promoting youth entrepreneurship and improving access to various productive inputs.

The SEE economies could consider introducing employment retention schemes, which have the potential to help unemployed individuals who have recently entered work, as well as low-paid workers, to remain and progress in work. These services combine job coaching and advisory services with financial incentives rewarding sustained full-time work, as well as completing training or education while employed.

Job quality

This section looks at the job quality sub-dimension (Figure 8.15). Job quality refers to multiple aspects of employment that contribute to workers' well-being. There are three key dimensions of job quality that have been shown to be particularly relevant for workers' well-being in the literature on economics, sociology and occupational health (OECD, 2014b):

- **Earnings quality**: the level and distribution of earnings.
- **Labour market security**: unemployment risk and unemployment insurance.
- **Quality of the working environment**: the nature and intensity of the work, how it is organised and the working atmosphere.

Poor job quality affects productivity through poor working practices and job strain, which reduce work performance. Analysis in Chapter 7 on Education and competencies (Figure 7.3) shows that labour productivity is significantly lower in the six SEE economies than in the EU or OECD, although it is growing more quickly on average.

This sub-dimension focuses on the policies that can have a direct or indirect impact on job quality. While job quality plays an important role in labour market policies, it is also significantly affected by other relevant policies (e.g. education policy, social policy, investment policy). The sub-dimension has three qualitative indicators:

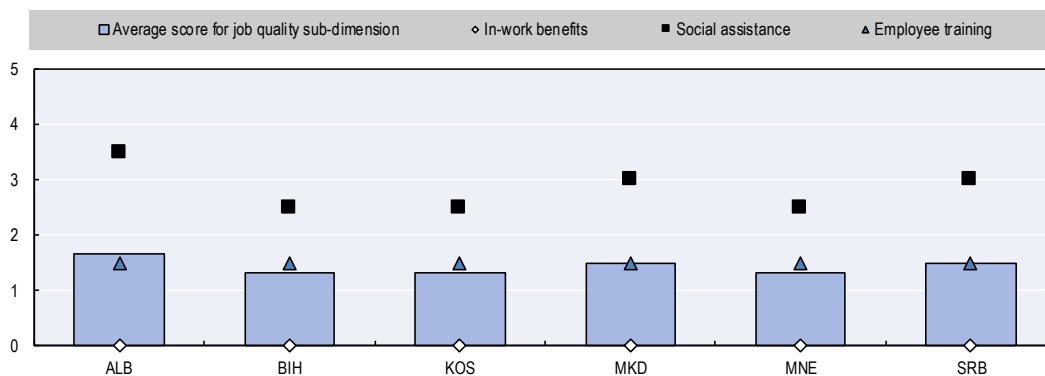
The **in-work benefits** indicator asks whether an economy has welfare schemes designed to provide an income supplement to needy families or individuals on the condition that they work. In-work benefits are a specific type of make-work-pay policies – the other one being a reduction in social security contributions (OECD, 2005).

The **social assistance** indicator looks at the policy, legal and institutional arrangements for the social assistance framework, as well as relevant programmes and measures adopted recently.

The **employee training** indicator measures the policy, legal and institutional arrangements for employee training, as well as relevant programmes and measures.

The assessed SEE economies have a relatively low average score for the job quality sub-dimension, at approximately 1.4 (Figure 8.15).

Figure 8.15. **Job quality: Sub-dimension average score and indicator scores**



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

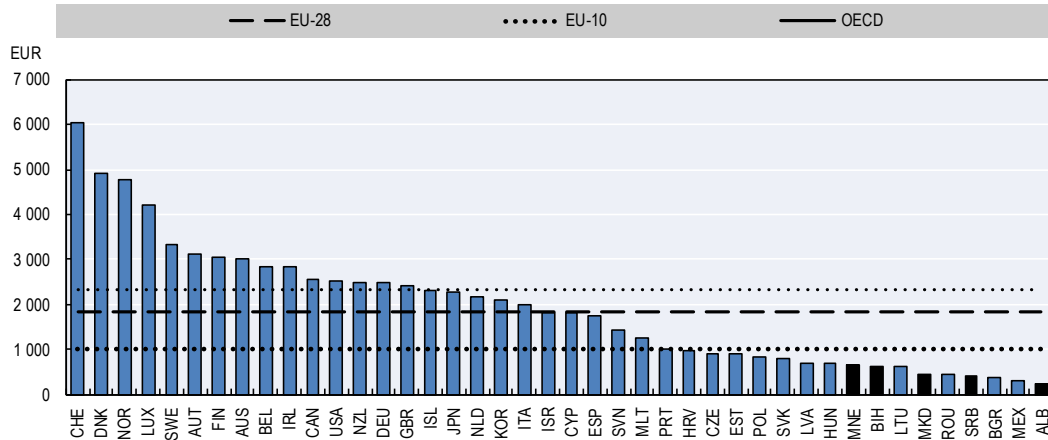
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Job quality needs to improve to reduce inequality in the SEE economies

In terms of gross average real monthly wages, the economies trail behind most of the EU and OECD economies (Figure 8.16). While wages are an essential part of the story, it is also important to look at income distribution to fully understand earning inequality. Income inequality can be linked to crime, poverty and social exclusion. A well-known measure of earning inequality is the Gini coefficient, whereby the coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality. The evidence shows that the Gini coefficient is relatively high, meaning that inequality is high, in the assessed economies, especially compared to the EU and OECD averages (Figure 8.17). Moreover, in the Former Yugoslav Republic of Macedonia and Serbia, the risk-of-poverty indicator (measured after social transfers) looks at the share of people with an equalised disposable income who are below the at-risk-of-poverty threshold.⁷ The data show that in 2015 their shares were 21.5% for the Former Yugoslav Republic of Macedonia and 25.4% for Serbia. This is relatively high compared to the EU average of 17.3%. While there are also considerable differences within the European

Union, some economies report much lower shares, such as the Czech Republic with 9.7% and the Netherlands with 11.6% (EC, 2017a).

Figure 8.16. Gross average real monthly wages (2014)

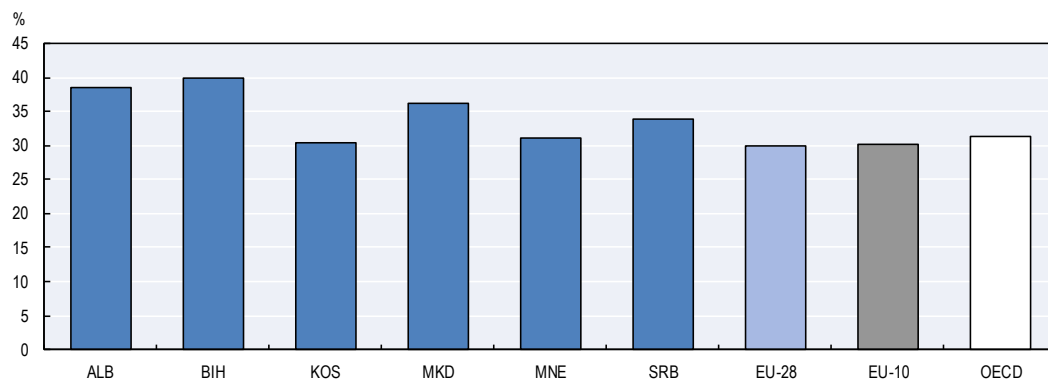


Note: Gross average nominal monthly wages in local currency units were taken from the ILO *Global Wage Report 2016/17*. To obtain gross average real wages, the World Bank “Consumer price index (2010 = 100)” was used to deflate values. To convert values in local currency to EUR, UNCTAD currency exchange rates were used. The OECD average does not include France, Chile, Greece or Turkey as there were no gross average nominal monthly wages in local currency units available in the *Global Wage Report 2016/17*. Data for Kosovo are missing. The EU and OECD averages have been calculated as simple averages.

Source: ILO (2016b), *Global Wage Report 2016/17: Wage Inequality in the Workplace*, www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf; UNCTADstat (2017), *Currency Exchange Rates* (database), <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=117>; World Bank (2017b), “Consumer price index (2010 = 100)”, *World Development Indicators* (database), <http://databank.worldbank.org/data/reports.aspx?source=2&series=FP.CPI.TOTL&country>.

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Figure 8.17. Income inequality (2014)



Note: Most recent data for Albania are 2012 and for Kosovo 2013. EU-28 – all 28 EU Member States; EU-10 – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The EU and OECD averages have been calculated as simple averages.

Source: Solt (2016), *The Standardized World Income Inequality Database* (database), <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/11992>.

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In-work benefits frameworks are absent from all the economies

In-work benefits are designed to increase the net income from work and the difference between in-work income and out-of-work benefits, thereby increasing employment incentives, which in turn is expected to increase labour supply (Wu, 2000). Hence, in-work benefits can improve earnings quality and equality. None of the SEE economies has legal, institutional and policy frameworks for in-work benefits or their implementation – hence they all score zero for this indicator (Figure 8.15). Lack of financial resources, combined with insufficient understanding of the benefits of this approach, are potential reasons why such policies have not been introduced.

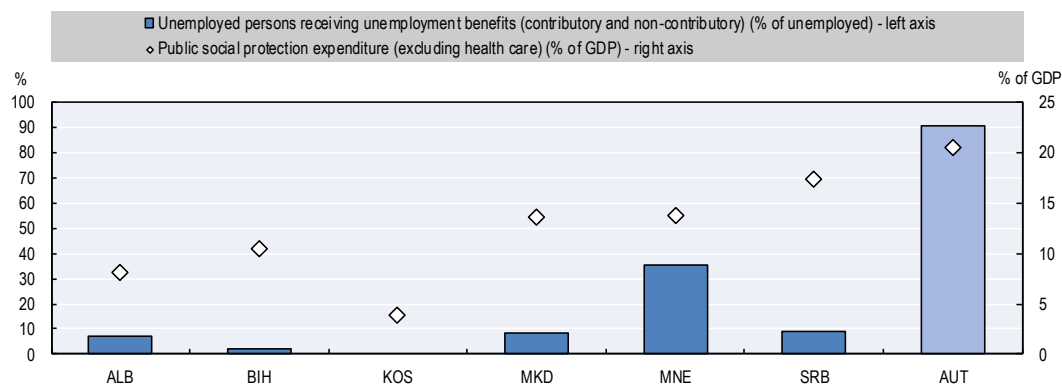
Social assistance is failing to prevent extreme hardship

Social protection, particularly unemployment benefits, can play a key role in providing income security to workers and their families in the event of temporary unemployment. It is thus an important indicator of job quality. The most recent data available for the SEE economies (excluding Kosovo) show that on average about 12.3% of unemployed people receive some form of unemployment benefits (contributory or non-contributory) (Figure 8.18). While this share varies from 2% in Bosnia and Herzegovina to 35.6% in Montenegro, the overall share is lower than in Austria (90.5%) and Slovenia (30.8%). What is more, data on social public expenditures (excluding health care) as a share of GDP show weaker performance among the SEE economies (on average 11.7%) than in Austria and Slovenia (20.4% and 17.4%, respectively). Among the SEE economies, Serbia has the highest share of public social expenditure (excluding health care) as a share of GDP (Figure 8.18).

Benefit duration follows the standard 12-month limit in most economies (Kovtun et al., 2014). Taking into consideration the high shares of long-term unemployment (Figures 8.11 and 8.12), benefit coverage is therefore likely to have expired for a large portion of the unemployed. While some of this evidence does not bode well for labour market security, it can also mean that unemployment benefits are not encouraging people to stay out of the labour market. It has been argued that unemployment benefits in some of the SEE economies are not typically accompanied by active labour market policies, even though they have been shown as important in helping workers return to work (Blanchard et al., 2013). Moreover, the unemployment benefits system's low coverage does not provide enough security for most unemployed people, which in turn creates incentives to enter informal employment (ETF, 2011).

The overall implementation of social assistance measures is well under way in the assessed economies (Figure 8.15). On average, the economies score approximately 2.8, with Albania having the highest score of 3.5. Albania is currently progressing well in the implementation of its Strategy for Social Protection 2015-2020 – the implementation is also being supported by the World Bank through the Social Assistance Modernization Project, which aims to improve the main social assistance programmes and to increase the government's capacities. However, in the assessed SEE economies, the social assistance provided by social work centres and public employment offices is often not integrated, resulting in limited targeting to increase the employability of able-bodied beneficiaries of social assistance.

Figure 8.18. Social benefits indicators



Note: For the quantitative indicator on unemployed people receiving unemployment benefits (contributory and non-contributory), data are available for 2012 for Albania, Montenegro and Serbia; 2011 for Austria and Bosnia and Herzegovina; and 2009 for the Former Yugoslav Republic of Macedonia; but are not available for Kosovo. For the public social protection expenditures (excluding health care) quantitative indicator, data are available for 2011 for Albania, Austria (AUT), Bosnia and Herzegovina, Montenegro, and Serbia; for 2010 for the Former Yugoslav Republic of Macedonia; and for 2009 for Kosovo.

Source: ILO (2014), *World Social Protection Report 2014/15: Building Economic Recovery, Inclusive Development and Social Justice*, www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf.

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Employee training could be boosted through strategic frameworks and employer incentives

Employee training can be an important element in educating workers about the effective use of technology, ensuring a competitive edge in the market, promoting health and safety among employees, creating opportunities for career development and personal growth, helping employers comply with laws and regulations, and improving productivity and profitability (ETF, 2014). As seen from their average score of 1.5 (Figure 8.15), the SEE economies need to improve their legal, institutional and policy frameworks for employee training. Doing so would encourage enterprises to offer regular training to their employees. While there are legal provisions in their respective labour laws which either oblige an employer to provide training under specific circumstances, or not to discriminate against an employee who would like to take on training, there are no other measures in place that offer incentives to enterprises.

The way forward for job quality

The six SEE economies should continue implementing reforms to improve social assistance systems by strengthening and standardising eligibility criteria, improving coverage, reducing work disincentives, and strengthening the links between the social assistance programmes and other institutions (e.g. public employment services).

The economies should develop incentives for and facilitate companies' provision of employee training. These could include tax incentives and other relevant measures.

The economies could further improve job quality by assisting workers to find quality jobs early in their careers, and by curbing informality.

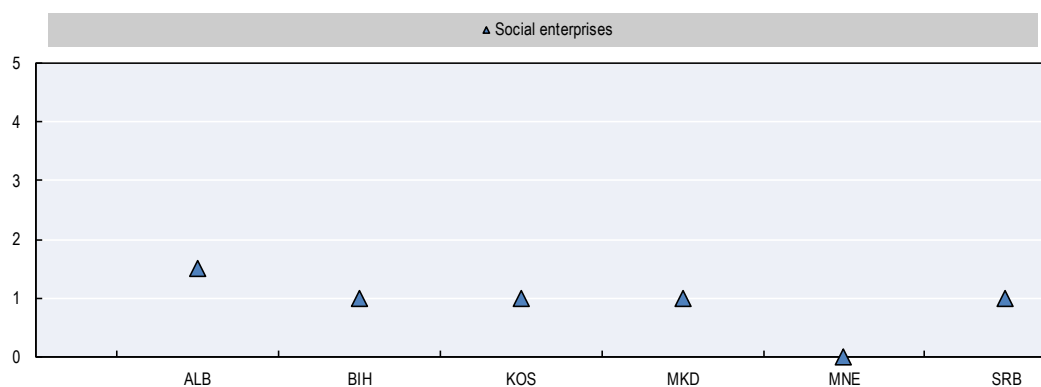
SEE economies could consider developing in-work benefit schemes. In-work benefits can translate into potentially significant increases in employment rates, provided they have a sufficiently large impact on financial incentives. When in-work benefits are very low, they are unlikely to have much of an impact on employment. On the other hand, generosity has to be accompanied by narrow targeting in order to channel help to the neediest families and keep programme costs within reasonable limits. Well-designed targeting, conditions on the number of hours worked to become eligible and phasing-out rates (i.e. the speed at which benefits are withdrawn as incomes rise), can help them to be effective.

Social economy

The social economy is a broad term and can include co-operatives, mutual societies, non-profit associations, foundations and social enterprises, but this chapter focuses on social enterprises. In the EU, a social enterprise is an enterprise whose main objective is to have a social impact rather than make a profit for its owners or shareholders (EC, 2016). In terms of the impact on competitiveness, some research points to the role of social enterprises, and a vibrant social economy as a whole, in encouraging innovation. The social entrepreneur seeks to achieve social goals by developing new combinations of goods, services and methods (Borza et al., 2009). There is no single legal form for social enterprises. Many operate in the form of social co-operatives, some are registered as private companies limited by guarantee, some are mutual, and many are not-for-profit organisations such as provident societies, associations, voluntary organisations, charities or foundations (EC, 2016).

This section assesses the social economy sub-dimension. It has only one indicator: social enterprises. For the time being, the social economy in the six SEE economies is in the earliest stages of development, as reflected by the low scores for this indicator (Figure 8.19).

Figure 8.19. Social economy: Sub-dimension indicator scores



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

StatLink  <http://dx.doi.org/10.1787/888933704663>

Among these economies, social enterprise development is seen as part of the social inclusion strategy or policies benefiting people with a disability. All six assessed SEE economies need to develop the legal, regulatory and financial framework required to foster the growth of social businesses and entrepreneurship. Most economies have taken important steps towards developing strategic frameworks to regulate social enterprises.

Albania, with a score of 1.5, has already adopted the relevant legislation and has addressed social enterprises in its National Strategy for Employment and Skills. While implementation is at an early stage, the strategy envisages support mechanisms for social enterprises via two measures: 1) designing and implementing measures to support social entrepreneurship; and 2) creating conditions for fostering female and male employment in the third sector (the non-profit sector with a social enterprise focus). Serbia has not yet adopted relevant legislation but has a draft law, and various non-government stakeholders have created the Coalition for the Development of Social Entrepreneurship, which has started to offer policy advice, advocacy and research on the social enterprise sector (NESsT, 2017).

The support infrastructure for social enterprise development is still taking off, with only a few support organisations actively working in the region. They provide a wide range of capacity building and training courses on business planning, product development, sales and marketing. These organisations tend to be local initiatives backed by one-off project funds. One of the few visible success stories in social enterprise support and education is the Youth Bank of the Mozaik Foundation in Bosnia and Herzegovina. It has already supported 16 800 young people through 1 800 community projects that offer education and training in self-employment and social entrepreneurship, and has funded 21 businesses since 2009. Social enterprises' financing strategies rely mostly on grant funding, given that most social enterprises are start-ups or early-stage businesses. A large number of start-up social enterprises have benefitted from private-sector support, e.g. from banks or companies (NESsT, 2017).

The way forward for the social economy

- **The six SEE economies could introduce special legal structures that govern social enterprises** or draft laws on social economy initiatives. Such measures would significantly strengthen the sector by raising its profile and lending it greater legitimacy. They could also develop national social strategies with the involvement of key stakeholders.
- **The economies could build public awareness** of the potential embodied in social enterprises through events, award schemes and campaigns.

The economies should consider supporting social enterprises through capacity-building activities such as documenting and learning from best-practice models, organising capacity-building and knowledge-sharing events to develop the skills of entrepreneurs and supporting organisations, as well as encouraging and supporting intermediaries who channel resources and skills to social enterprises (NESsT, 2017).

Social enterprises' financing needs could be addressed by further developing micro-finance and small business support networks, encouraging and rewarding community participation and investment in social enterprises (NESsT, 2017).

Conclusions

The six SEE economies are generally aware of their labour market challenges and have taken steps to improve their employment policies. Most of them have designed comprehensive employment strategies to resolve structural unemployment, particularly youth unemployment. In order to make their labour markets more flexible and inclusive, however, the SEE economies should increase their efforts to implement and co-ordinate their activities with other areas affecting employment (e.g. tax policy, education policy

and social policy). Regular and independent evaluations would ensure that regular policy adjustments are made. Informal employment is widespread across the region, yet there are few measures in place to shift informal firms and workers into the formal sector. Informal employment should be tackled as a long-term commitment, including through reducing the tax burden where possible, especially on wages, in order to create financial incentives for the transition to formal employment. Likewise, labour inspectorates need greater capacity to ensure effective enforcement of the labour law.

The structural unemployment challenges facing the six economies – especially low activity rates, high youth and long-term unemployment and significant gender gaps – mean that activation policies deserve very close attention. They should be efficiently targeted and designed and ensure that the unemployed have the incentives to take them up. Yet the economies’ public employment services are struggling with insufficient capacity and infrastructure, which inhibit the effective implementation of high-quality policies.

Overall, job quality is relatively low in the six SEE economies, resulting in high inequalities and, consequently, poor labour productivity. Improving earning quality, labour market security and the quality of the working environment are therefore highly relevant.

Social enterprises offer new avenues for job creation, especially for vulnerable groups. More efforts are required to draft strategic frameworks and legislation that would regulate how social enterprises function and provide them with the support they need.

Notes

1. The EU and OECD averages have been calculated as simple averages.
2. There are four main administrative levels in Bosnia and Herzegovina: the State, the Federation of Bosnia and Herzegovina, the Republika Srpska and the Brčko District. The administrative levels of the state, the Federation of Bosnia and Herzegovina and the Republika Srpska are taken into account in the *Competitiveness Outlook 2018* assessment, when relevant. The Brčko District is not assessed separately.
3. The following indicators have been added to the assessment: employment retention and advancement programmes (under the activation policies sub-dimension); in-work benefits, social assistance, employee training (under the job quality sub-dimension); and social enterprises (under the social economy sub-dimension). The following indicators have been excluded from the assessment: migration strategy, foreign qualification recognition, migrants in labour market data (previously under the labour mobility dimension); employment protection legislation for regular contracts, employment protection legislation for fixed-term contracts (previously under the labour market governance sub-dimension); and social economy initiative strategy and social economy statistics (previously under the social economy sub-dimension).
4. For more information visit www.oecd.org/employment/jobs-strategy/about.

5. A score of 0 denotes absence or minimal policy development while a 5 indicates alignment with what is considered best practices. Each level of scoring is updated for the individual indicator under consideration, but they all follow the same score scale: a score of 1 denotes a weak pilot framework, 2 means the framework has been adopted as is standard, 3 that is operational and effective, 4 that some monitoring and adjustment has been carried out, and 5 that monitoring and improvement practices are systematic.
6. Argentina, Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, South Africa, Turkey and the Russian Federation.
7. Set at 60% of the national median equivalised disposable income after social transfers.

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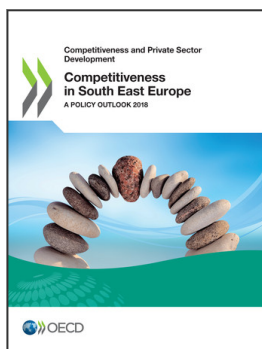
Annex 8.A1.

Employment policy: Indicator scores

Table 8.A1.1. **Employment policy: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Labour market governance						
Employment framework	4.5	3.0	2.0	3.5	3.5	4.5
Tripartism and social dialogue	2.5	3.5	2.5	3.0	3.5	2.0
Informal employment reduction	3.5	1.5	1.5	2.5	2.5	2.5
Labour inspectorate	4.0	3.0	2.5	3.0	2.5	3.5
Activation policies						
Public employment services	3.5	3.0	2.5	3.5	3.5	4.0
Skills gap analysis	3.5	2.5	1.0	3.5	3.0	3.5
Employment retention and advancement programmes	0.0	0.0	0.0	0.0	0.0	0.0
Youth employment	3.0	2.5	1.5	3.5	3.0	4.5
Job quality						
In-work benefits	0.0	0.0	0.0	0.0	0.0	0.0
Social assistance	3.5	2.5	2.5	3.0	2.5	3.0
Employee training	1.5	1.5	1.5	1.5	1.5	1.5
Social economy						
Social enterprises	1.5	1.0	1.0	1.0	0.0	1.0

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