

Chapter 12.

Employment policy in South East Europe

Employment policy seeks to provide a framework of institutions, laws and practices that improve labour market functions, inclusiveness, and the ability to address post-crisis and demographic challenges. This chapter on the Employment Policy Dimension considers three sub-dimensions in its assessment of employment performance and policy development. The Labour Mobility Sub-Dimension examines to what extent economies regulate the labour and occupational mobility of workers. The Labour Market Governance Sub-Dimension analyses the capacity of public employment services, strategies to facilitate employment among young people and vulnerable groups, and policies that address informal employment. It also describes employment protection legislation analysed with OECD indicators and methodology. The Social Economy Sub-Dimension describes the development of government action to promote the social economy and an environment conducive to social enterprises.

Main findings

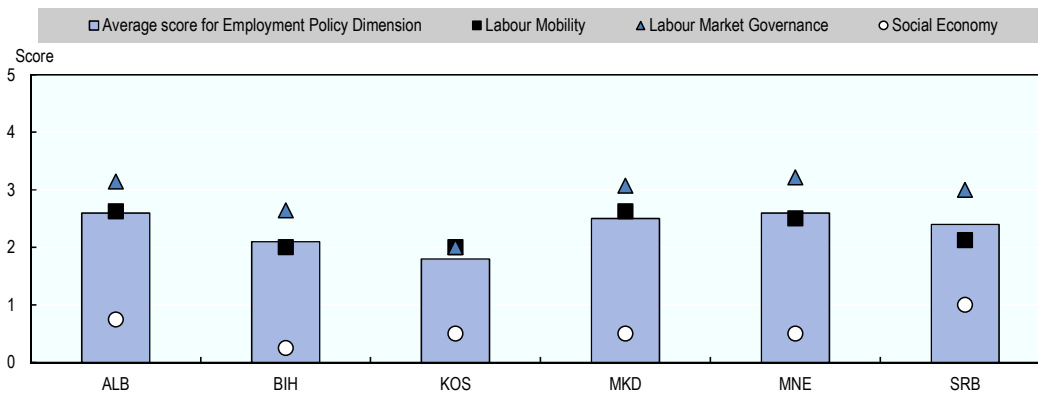
Creating more and better-quality jobs is a major challenge for governments seeking to raise living standards, boost productivity and growth, and foster more inclusive, cohesive societies. Growth-enhancing policies have an important role to play in increasing productive, remunerative employment. However, growth in itself is not sufficient. It requires labour market policies that improve employment opportunities and yield better, more equitable outcomes for the working-age population, which includes vulnerable groups. Employment policy can provide a framework of institutions, laws and practices that improve the functioning of labour markets, make them more inclusive, and support their ability to address the post-crisis and demographic challenges.

A number of labour market conditions and trends are common to the economies of South East Europe (SEE) whose employment performance is considerably below that of EU countries. One of the most prominent is low employment: 37% of the working-age population was employed in 2013, compared to 64% in the EU member states. The region is also affected by youth and long-term unemployment rates that are among the highest in Europe. A further challenge is informal employment which has harmful consequences for workers.

Most of the economies in SEE have taken steps to improve their employment policy frameworks. They generally do well when it comes to labour market governance, but could do more to ease labour mobility and integrate foreign workers. As for policy to promote the social economy, it is still nascent.

The SEE economies' average score in the Employment Policy Dimension is 2.4 out of 5 which means that policy frameworks and strategies have been adopted, although further support is needed to implement them. Four of the economies – Albania, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia – score at least 2.5 (the median score), thanks to their relatively more advanced (albeit incomplete) strategy implementation. Bosnia and Herzegovina, with a score of 2.2, could take implementation much further, while Kosovo is in the final stages of adopting its policy frameworks.

Figure 12.1. **Employment Policy: Dimension and Sub-Dimension average scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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Achievements

The SEE economies have made progress in developing employment policy.

SEE economies have made efforts to design comprehensive employment strategies developed through consultative processes to address their specific challenges.

All SEE economies are attempting to address structural unemployment, particularly youth unemployment, in their strategies and are making headway in implementing them.

Challenges

Despite recent improvements, SEE economies still face significant obstacles to reaching high-levels of quality employment.

Structural unemployment is a serious issue and has been rising in recent years. Very high rates of youth and long-term unemployment are of particular concern across the region.

Public employment services (PES) lack the capacity and infrastructure to provide quality support. Staff workloads are very high (up to 600 jobseekers for a single PES officer) and seriously constrain effective employment policies.

Informal employment is high. Although estimates put informal employment as high as 30% of total employment in some economies, measures to gradually coax informal workers into formality are often not in place.

Social economy initiatives are nascent. Very little legislation relating to the social economy, e.g. social businesses, has been adopted. The lack of data further hampers analysis and progress in policy.

Recommendations

The following steps and measures are recommended for SEE economies to facilitate more job creation and high-quality employment.

Further promote active labour market policies such as youth employment schemes, self-employment programmes and additional training opportunities for the long-term unemployed. Active labour market policies would, ideally, be part of a broader, evidence-based employment policy which is monitored regularly.

Increase the capacity of public employment services (PES). The quality of the services delivered by the PES needs to be improved. Co-operation between the various public sector actors could be further facilitated.

Align labour statistics with Eurostat norms. The scope of labour force surveys could be widened to collect information on migration flows, with particular attention paid to migrants' demographic and socio-economic characteristics. Another focal point could be skills gaps and mismatches in the economy. The SEE economies would benefit from closer regional co-operation between their national statistics offices to facilitate peer learning on data collection norms and standards.

Improve detection and enforcement measures in addressing informal employment. Policy makers could consider developing analytical tools to detect informal employment and implementing effective enforcement measures as part of efforts to curb the informal sector.

Develop a legislative framework for social businesses. Most economies do not have a legislative basis for their social economy initiatives, even though they recognise the potential of social enterprises for creating jobs.

Overview

Employment policy relates to government activities, laws and practices intended to promote full and productive employment. The SEE economies' weak labour markets are a serious source of social concern as they undermine medium- and long-term economic growth. Low rates of employment mean forgone production, while the unemployed risk losing their skills and struggling to find work in the future. Very low youth employment rates impede the building of human capital and increase young people's dependency on support systems, so diminishing the economies' long-term growth potential. Finally, 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.

Employment policy is linked to other policy areas addressed in this *Competitiveness Outlook 2016*:

- **Chapter 3. Education and competences** largely determines 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).
- **Chapter 2. Trade policy and facilitation**, through economic diversification and global value chain development, pose challenges which necessitate adaptability in the labour force (ibid.). An adaptable labour force is thus key to creating a favourable environment in which both domestic and foreign enterprises grow through new investment and respond quickly to changing circumstances.

Furthermore, the cross-border labour mobility of workers can help match skills with jobs more closely, transfer knowledge and technology, increase economic productivity and create jobs (ILO/OECD/World Bank, 2015). Encouraging and enabling mobility will make small SEE economies more competitive.

- **Chapter 1. Investment policy and promotion** addresses key factors to facilitating investment, including employment policy. Research finds that more stringent employment protection legislation may deter foreign direct investment (FDI) (Benassy-Quéré, Coupet and Mayer, 2007; Dewit, Görg and Montagna, 2009; Gross and Ryan, 2008) and that relaxing labour regulations may increase it.
- **Chapter 13. Health policy** directly affects the labour force and the business environment. Investing in people's health as human capital helps improve the general health of the population and strengthens employability, thus making active employment policies more effective, helping to secure adequate livelihoods and boosting growth (EC, 2013a).

Box 12.1. Employment Policy Dimension in the SEE 2020 Strategy

The Employment Dimension is a part of the Inclusive Growth Pillar of the South East Europe 2020 Strategy (SEE 2020). A central objective of the Inclusive Growth Pillar is to improve employment through the development of skills, the creation of jobs and the increase of labour market participation that includes vulnerable groups and minorities. Employment policy also means fighting poverty, modernising labour markets and strengthening education and training systems.

The Inclusive Growth Pillar's headline target is an increase in the overall region-wide employment rate from 39.5% to 44.4% by 2020. That target is based on the broadest possible definition of employment pursuant to the International Labour Organisation (ILO) definition, which includes people aged 15 and over. The SEE 2020 Employment Dimension comprises three objectives: promote labour mobility, enhance labour market governance and stimulate social economy initiatives.

The official SEE 2020 Strategy Co-ordinator for the Employment Policy Dimension is the Regional Cooperation Council (RCC). The RCC seeks to promote and improve regional co-operation in South East Europe and is the overall co-ordinator of the SEE 2020 Strategy.

Source: RCC (2013), *South East Europe 2020: Jobs and prosperity in a European perspective*, www.rcc.int/files/user/docs/reports/SEE2020-Strategy.pdf.

Employment Policy Dimension assessment framework

This chapter proposes an analysis of employment policies in South East Europe. It does not seek to be exhaustive, however. It confines itself to three broad sub-dimensions based on the objectives set out in the Inclusive Growth Pillar of the SEE 2020 Strategy. The sub-dimensions are:

- Labour Mobility

Do the SEE economies regulate the labour and occupational mobility of foreign workers, and to what extent? Are policy makers easing labour market restrictions on foreign workers? What measures are in place to address the skills gap in the workforce?
- Labour Market Governance

Do policies seek to improve the capacity of the public employment services? Have there been efforts to ease employment protection legislation? Are there measures in place to reduce youth unemployment and bring vulnerable groups into the labour market? Do policies address informal employment and how far advanced are they?
- 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 12.2 shows how the sub-dimensions and their constituent indicators make up the Employment Policy Dimension assessment framework.

Each sub-dimension is assessed through quantitative and qualitative indicators. With the support of the OECD, the Regional Cooperation Council (RCC) collected qualitative and quantitative data.

Figure 12.2. **Employment Policy Dimension assessment framework**

Employment Policy Dimension		
SEE 2020 headline target <ul style="list-style-type: none"> • Increase overall employment rate Outcome indicators <ul style="list-style-type: none"> • Employment rate • Unemployment rate • Long-term unemployment rate 		
Sub-Dimension 1 Labour Mobility	Sub-Dimension 2 Labour Market Governance	Sub-Dimension 3 Social Economy
Qualitative indicators <ol style="list-style-type: none"> 1. Migration strategy 2. Foreign qualification recognition 3. Migrants in labour market data 4. Skills gap analysis 	Qualitative indicators <ol style="list-style-type: none"> 5. Employment strategy 6. Tripartite consultations 7. Youth employment 8. Vulnerable groups employment 9. Public employment services 10. Informal employment 11. Labour inspectorate 12. Employment protection legislation for regular contracts 13. Employment protection legislation for fixed-term contracts 	Qualitative indicators <ol style="list-style-type: none"> 14. Social economy initiative strategy 15. Social economy statistics
Quantitative indicators <ol style="list-style-type: none"> 1. Number of work permits issued 2. Share of foreign workers in labour force 3. Migrant Integration Policy Index 	Quantitative indicators <ol style="list-style-type: none"> 4. Youth unemployment rate 5. NEET rate of 15-24 year-olds 	Quantitative indicators

Quantitative indicators are based on national or international statistics. Qualitative indicators are scored in ascending order on a scale of 0 to 5.¹

Labour market performance in SEE economies

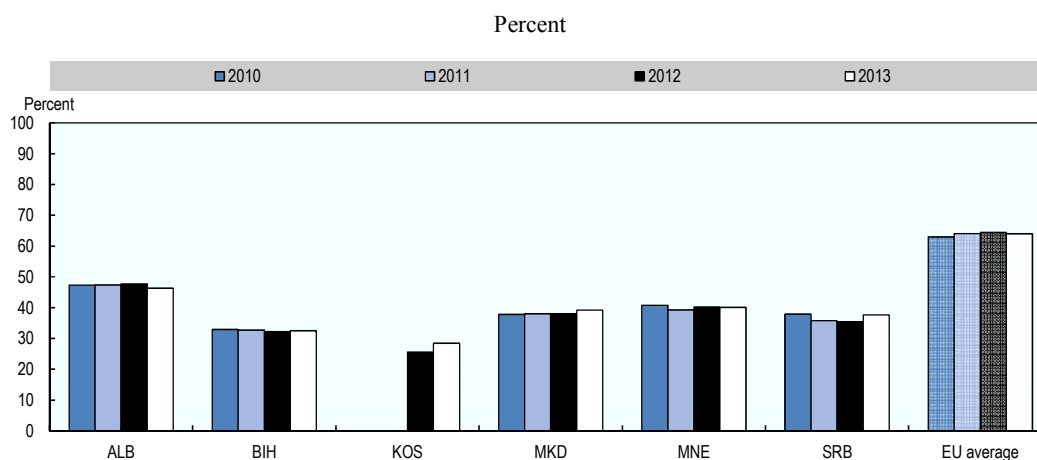
Labour markets in South East Europe are characterised by high levels of structural unemployment (Figure 12.4). It not only undermines medium- and long-term economic growth, it is also a serious social concern in the region.

Employment rates are generally low in the SEE economies (Figure 12.3). They are relatively higher in Albania and particularly low in Kosovo and Bosnia and Herzegovina. Rates in the Former Yugoslav Republic of Macedonia, Montenegro and Serbia lay within a similar range of between 35% and 40% in 2013.

Employment fell in four of the economies between 2010 and 2013, albeit at varying rates – from a 1 percentage point drop in Albania to one of 0.2 points in Serbia. The Former Yugoslav Republic of Macedonia, by contrast, experienced a rise over the same period, as did Kosovo between 2012 and 2013.

The unemployment rate is the proportion of the labour force that does not have a job and is actively looking for work (Figure 12.4). It is much higher in the SEE region than in EU countries – 24% on average compared with 10% in 2014.

Figure 12.3. Employment rate of 15 year-olds and over

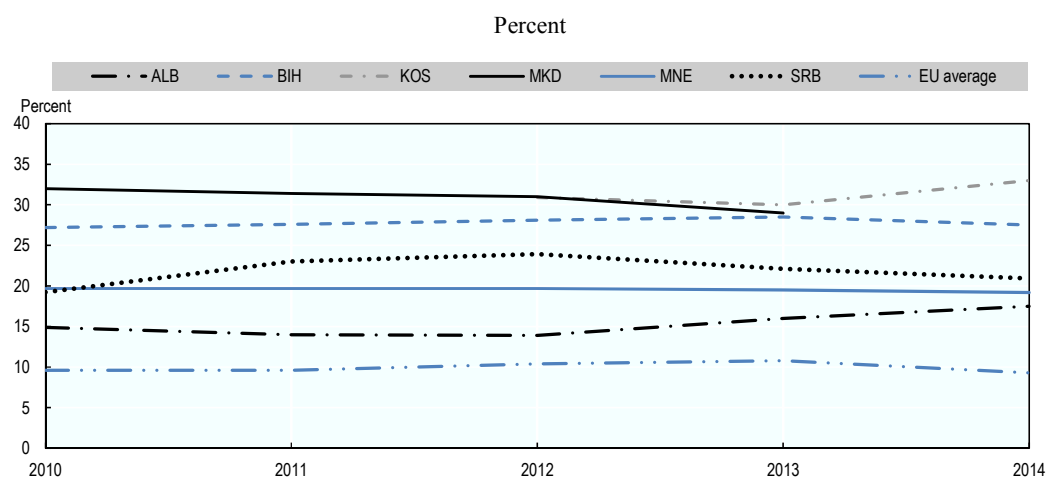


Note: Data not available for Kosovo for the years 2010 and 2011.

Source: EC (2015a), *Employment and unemployment* (Labour force survey, Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; ILO (2015), *Key Indicators of the Labour Market* (database), www.ilo.org/empelm/what/WCMS_114240/lang--en/index.htm; Kosovo Agency of Statistics (2015), *Labour Market* (database), <https://ask.rks-gov.net/ENG/labour-market/tables>.

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Figure 12.4. Unemployment rates of 15 year-olds and over



Note: Data not available for Kosovo for the years 2010 and 2011 and for the Former Yugoslav Republic of Macedonia for 2014.

Source: EC (2015a), *Employment and unemployment* (Labour force survey, Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; ILO (2015), *Key Indicators of the Labour Market* (database), www.ilo.org/empelm/what/WCMS_114240/lang--en/index.htm; Kosovo Agency of Statistics (2015), *Labour Market* (database), <https://ask.rks-gov.net/ENG/labour-market/tables>.

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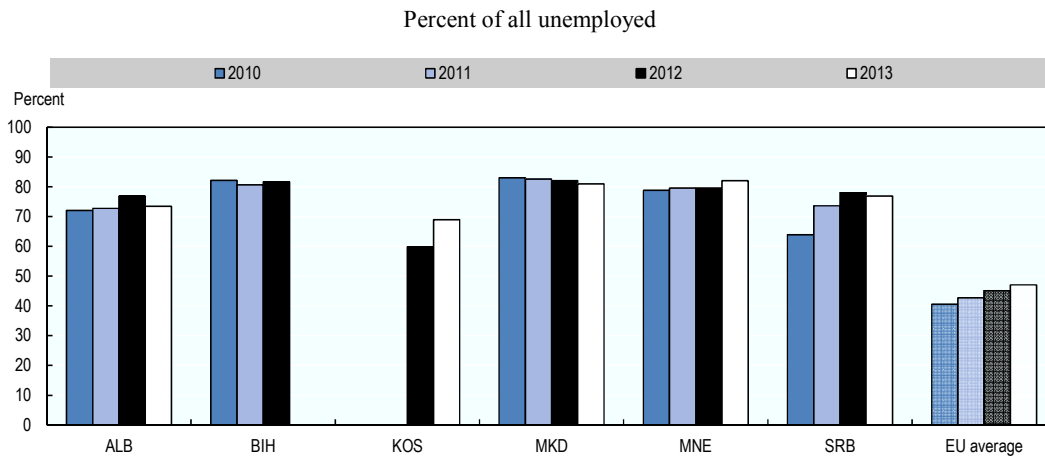
Particularly high unemployment rates are to be observed in the Former Yugoslav Republic of Macedonia and Bosnia and Herzegovina, with a slight fall in the former and rise in the latter between 2013 and 2014. Kosovo's rates are both high and rising – to

33% in 2014. Albania, Montenegro and Serbia all show lower unemployment, although Albania saw a 2.6 percentage point increase between 2010 and 2014.

Unemployment tends to have more severe effects the longer it lasts (OECD, 2013a). Short spells of joblessness can normally be managed through unemployment compensation, savings and, perhaps, assistance from family members. When it lasts, though, it can cause substantial financial hardship, especially when unemployment benefits either do not exist or have been exhausted (Figure 12.5).

Long-term unemployment is a serious issue in South East Europe. Compared to the EU average long-term unemployment rate of 43.9%, 80% of all unemployed have been out of a job for 12 months or longer in the SEE economies. The sole exception is Kosovo where the long-term unemployment rate declined to 56% in 2013.

Figure 12.5. Long-term unemployment rate (12 months +)



Note: Data not available for Bosnia and Herzegovina for the year 2013 and for Kosovo for the years 2010 and 2011.

Source: EC (2015a), *Employment and unemployment (Labour force survey)*, Eurostat database, <http://ec.europa.eu/eurostat/web/lfs/data/database>; ILO (2015), *Key Indicators of the Labour Market* (database), www.ilo.org/empelm/what/WCMS_114240/lang--en/index.htm; Kosovo Agency of Statistics (2015), *Labour Market* (database), <https://ask.rks-gov.net/ENG/labour-market/tables>.

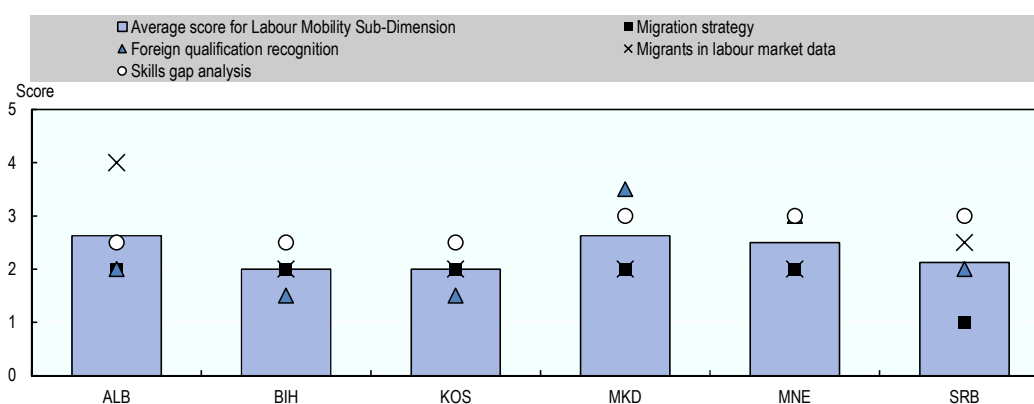
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Long-term unemployment can lead to loss of skills, self-confidence and motivation, and translate into acute social and health problems that sap people's ability to work and look for a job (OECD, 2014). Indeed, without additional, well-targeted support there is a substantial risk that the long-term unemployed exit the labour market altogether. For example, Krueger, Cramer and Cho (2014) show that, in the United States, workers who had been unemployed for six months or more were twice as likely to have left the labour force than to have found work 15 months later.

Labour Mobility Sub-Dimension

This section looks at the Labour Mobility Sub-Dimension (Figure 12.6). It examines to what extent SEE policy makers regulate the labour and occupational mobility of migrants and seek to ease labour market restrictions on foreigners. It also analyses governments' efforts to address skills gaps in the workforce and to gather data to that end.

Figure 12.6. Labour Mobility: Sub-Dimension average scores and indicator scores



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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The average labour mobility score of 2.3 indicates that, although the SEE economies have adopted the requisite instruments and frameworks, they have not yet fully implemented them. While Albania, the Former Yugoslav Republic of Macedonia and Montenegro have average scores of above 2.5, the other economies score below average.

A relatively strong performance is to be observed in the analysis of skills gaps, where the average score is 2.6. The indicator where there is the most room for improvement is the strategic approach to regulating labour migration, where the average score is 1.8 (Table 12.1).

Labour mobility needs to be further facilitated

Geographical labour mobility can act as an economic adjustment and growth mechanism. Indeed, mobility, whether domestic or cross-border, can bring gains, such as the movement of workers from regions with an over-supply of labour to ones that are under-supplied. It can also drive a more efficient allocation of labour to jobs and regions where it is (presumably) more productive and can generate more income. Voluntary occupational mobility in particular may enhance workers' employability, income and career prospects. As for greater labour mobility, it makes firms more flexible, adaptable and competitive, as they reduce their costs and increase their productivity (ILO, 2009).

The **migration strategy** indicator assesses to what degree migration policy is strategic. The **foreign qualification recognition** indicator assesses provision, if any, for recognising foreign credentials. More specifically, it gauges whether there is a co-ordinated, holistic government approach to labour migration, how widely it has been implemented and how well all stakeholders are included in the process.

Finally, the **migrants in labour market data** indicator measures governments' efforts to produce such labour market information, particularly the socio-economic characteristics of migrants. A well-designed, transparent labour market information system is crucial for analysing labour mobility.

Table 12.1. **Labour Migration Sub-Dimension: Labour migration indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Migration strategy	2.0	2.0	2.0	2.0	2.0	1.0
Foreign qualification recognition	2.0	1.5	1.5	3.5	3.0	2.0
Migrants in labour market data	4.0	2.0	2.0	2.0	2.0	2.5

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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With the exception of Serbia, which is still formulating its migration policy, all economies have approved strategy documents on their policies:

- the National Strategy on Migration and Action Plan – Albania
- the Strategy on Migration and Asylum – Bosnia and Herzegovina
- National Strategy and Action Plan on Migration – Kosovo
- the Resolution on Migration Policy – the Former Yugoslav Republic of Macedonia
- the Strategy for Integrated Migration Management – Montenegro.

Although the strategies are in place, the economies have been slow to implement them.

An important aspect of labour mobility is the speedy recognition of foreign qualifications. In Albania, recognition procedures are still lengthy. It is currently trying to introduce an on-line application which is not yet in place, while new complementary procedures (e.g. the professional card) require further capacity building. As for Bosnia and Herzegovina, its complex institutional structure scatters responsibilities across different bodies and authorities (cantons, entities and the state), which further hampers matters. Mutual recognition agreements governing foreign qualifications are a state-level competence, while adoption and implementation is the responsibility of each entity, both of which have different internal legislation.

Kosovo, for its part, has not yet ratified the Lisbon Recognition Convention on the recognition of higher education qualifications, while in the Former Yugoslav Republic of Macedonia the recognition of academic qualifications is an ongoing process. It has bilateral agreements with several of its regional neighbours (Albania, Bulgaria, Kosovo and Serbia) and recognises professional qualifications in accordance with the EU *acquis communautaire*. It needs a new law, however, when it comes to the freedom to provide services.

Montenegro has partially aligned its regulations on labour mobility with the EU *acquis*. It plans to adapt the legislation in order to enable EU citizens and their family members free access to the labour market in Montenegro, in order to fully comply with the principle of free movement of workers. The Law on Foreigners came into force in April 2015. In Serbia, legislation on the mutual recognition of professional qualifications has not yet been formally adopted. It is due to be towards the end of 2015.

Statistical data on labour migration can help the integration of foreign workers

The collection of labour migration statistics is most advanced in Albania, which has gathered them quarterly as part of a special module in the Labour Force Survey since 1 January 2014. The data collected relate to internal and return migration and emigration. They include facts and figures on socio-economic characteristics, year of migration, and reasons for immigrating and emigrating.

Although the other economies do collect some data on migration and mobility, they do not do so systematically. National statistics agencies should harmonise regional labour market data and all economies should increase their efforts to align their indicators with Eurostat methodologies.

An indicator that quantifies (inward) labour mobility is the number of work permits an economy issues. Montenegro issues by far the most, Croatia has cut back significantly due to its prolonged recession, and the Former Yugoslav Republic of Macedonia has steadily issued more and more. As for Bosnia and Herzegovina and Serbia the total number of work permits they issue is slightly lower, albeit with some increase between 2010 and 2013.

Another important quantitative indicator is the share of foreign workers as a percentage of the labour force or employed population. Generally, though, the proportions of foreign workers in individual SEE economies are very low – only 0.4% of total employment in Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia and 0.1% in Serbia. Montenegro, where foreign workers accounted for almost 8% of the workforce in 2013, is an exception

How well are foreign workers integrated in the SEE economies? The Migrant Integration Policy Index (MIPEX), which recently added Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia to its database, measures migration policy against seven metrics:

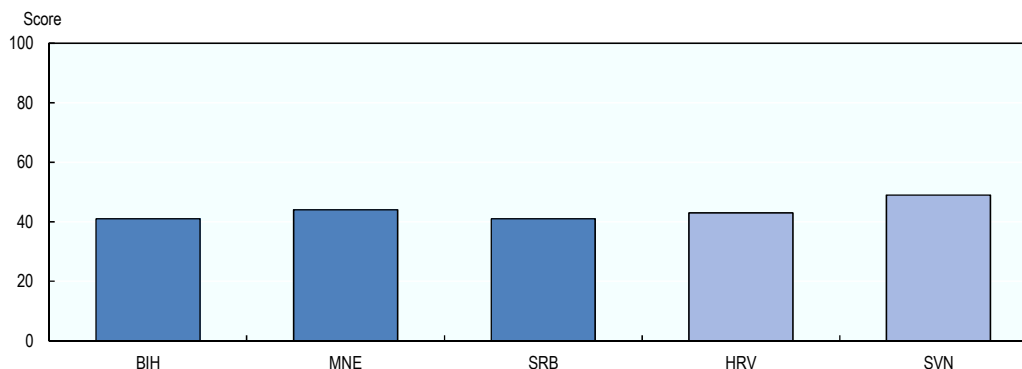
1. labour mobility
2. family reunion
3. education
4. political participation
5. long-term residence
6. access to nationality
7. anti-discrimination.

It ranks countries on a scale of 0 to 100, where 100% is the top score (Figure 12.7). A score of 50% means, therefore, that policies create as many obstacles as opportunities for immigrants seeking to become equal members of society (Migration Integration Policy Index, 2015).

With an overall MIPEX score of somewhat above 40, SEE economies are hardly even halfway favourable to integration. The SEE economies are all below Slovenia's rating, even though policies in the Montenegro are slightly more inclusive than those of its regional peers.

Figure 12.7. **Migrant Integration Policy Index (MIPEX), 2014**

MIPEX indicator score



Note: A score of 100 refers to the best possible score and 0 to the worst. For further information on the methodology of the Migration Integration Policy Index please consult: <http://mipex.eu/methodology>. Data for Albania, Kosovo and the Former Yugoslav Republic of Macedonia not available.

Source: Migration Integration Policy Index (2015), *Migration Integration Policy Index* (webpage), www.mipex.eu.

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Evidence and analysis of skills gaps and labour market flows could be improved

Skills gap analysis is a method of identifying and assessing gaps and mismatches between the skills people have and those needed in the workplace. On a broader level, it can also contribute to more effective investment in human capital by individuals, governments and businesses. The **skills gap analysis** qualitative indicator measures to what extent an economy conducts skills gaps analysis.

Table 12.2. **Labour Migration Sub-Dimension: Skills gap analysis indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Skills gap analysis	2.5	2.5	2.5	3.0	3.0	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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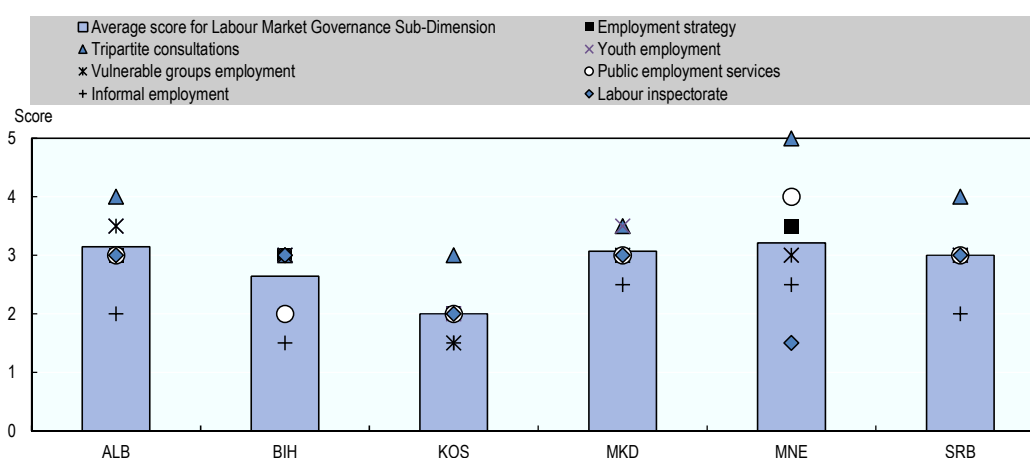
All the SEE economies conduct some form of skills gap analysis. In most of them, it is usually the public employment service that researches employers' needs (mainly in the form of business surveys) to assess occupation levels, special knowledge and know-how, etc. In Montenegro, the Former Yugoslav Republic of Macedonia and Serbia such analyses are not exclusively donor-funded and often target strategic economic sectors and/or particular groups.

The 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. In the long run, it might be useful to use such findings to improve education systems so that students are equipped to enter the workplace. That would require close co-operation between education policy makers, public employment services and labour market policy makers.

Labour Market Governance Sub-Dimension

This section looks at the Labour Market Governance Sub-Dimension (Figure 12.8). It examines qualitative indicators of strategic approaches to employment, programmes to reduce youth unemployment, measures to bring vulnerable individuals into the workplace and policy on informal employment. It further addresses the capacity of the public employment services and discusses employment protection legislation.

Figure 12.8. Labour Market Governance: Sub-Dimension average scores and indicator scores



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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The SEE economies' average scores in labour market governance indicate that they have adopted strategies to improve it. However, some economies have gone further in implementing those strategies than others and monitoring schemes are not in place. Four economies score above 3, while Bosnia and Herzegovina's average score is 2.7 and Kosovo's is 2.2.

Efforts have been made to establish strategic frameworks for employment policy

Two qualitative indicators assess the employment policy framework (Table 12.3). The **employment strategy** indicator considers whether a comprehensive strategic approach to employment is in place, while the **tripartite consultations** indicator gauges government commitment to engage with the social partners in tripartite approaches such as a council.

Table 12.3. Labour Market Governance Sub-Dimension: Strategic approach and tripartite consultations indicator scores

	ALB	BIH	KOS	MKD	MNE	SRB
Employment strategy	3.0	3.0	2.0	3.0	3.5	3.0
Tripartite consultations	4.0	3.0	3.0	3.5	5.0	4.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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Tripartite councils provide a national forum where the social partners – employers, trade unions and the government – express their views on employment-related issues. But their prime purpose is to connect the government’s policy agenda with the economic actors on the ground (employers and workers) and thus facilitate participatory policy-making processes.

All SEE economies 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, all are implementing measures, particularly to fight youth unemployment. The next step is to monitor implementation against the implementation plan’s goal so that, if necessary, corrective action may be taken. Currently, only Montenegro’s Employment and Human Resource Development Strategy includes some form of monitoring.

Tripartite councils exist in all economies. In Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Kosovo the council is consulted on draft legislation, although only in a limited number of labour-related policy fields. In Albania and Serbia, adequate representativeness criteria enable the social partners to participate in tripartite consultations. The council meets on a regular basis and is systematically consulted on labour-related legislation. It covers a wide range of issues such as social security, healthcare, pensions, wages, prices, taxes and industrial relations.

The Montenegrin Tripartite Council is an example of good practice in the region – it scored a 5 in the tripartite consultations indicator. The council has local branches and it is reported that the relationship between the parties is one of mutual trust. The council and its local chapters are involved in the drafting of employment-related laws and national strategies. They make recommendations on extensions of collective agreements or give opinions on policy initiatives and action plans.

Youth unemployment in SEE needs to be further addressed

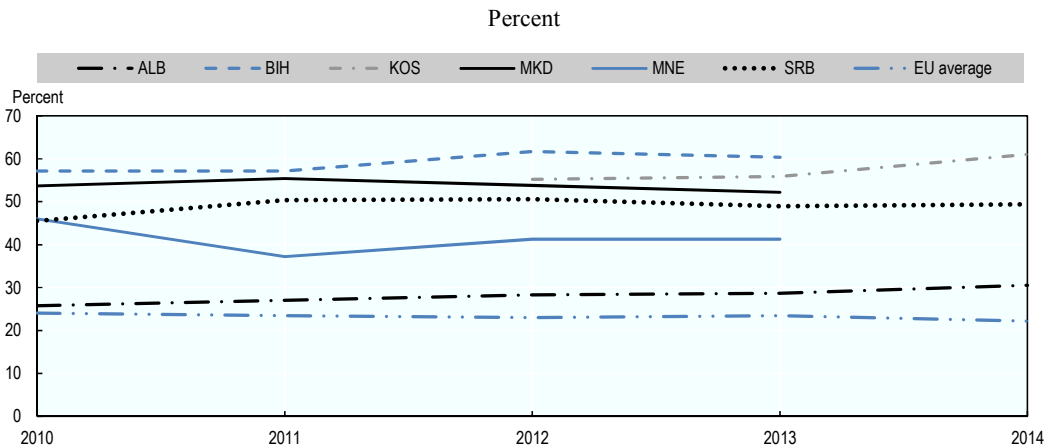
The first experience of employment has a profound influence on later working life. Getting off to a good start helps young people take their place in the labour market and lays the foundations of a good career. By contrast, it can be hard to make up for a first-time failure (OECD, 2014). Reducing youth unemployment is thus crucial in the SEE economies (Figure 12.9).

The youth unemployment rate is the proportion of 15-24 year olds in the workforce who do not have a job and are available and actively looking for work. By that definition, unemployment among the young in the SEE economies is significantly higher than in the total population. 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. The result is youth unemployment rates of 52.2% in the Former Yugoslav Republic of Macedonia, 48.9% in Serbia and 60.4% in Bosnia and Herzegovina, compared to 23.5% in the EU. The only exception is Albania where the figure was only slightly higher than in the EU countries at 28.7% in 2013.

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. With the exception of Montenegro, the rate of young people not in employment, education or training (NEET) in the SEE economies is almost double the EU average (Figure 12.10). Young NEETs are considered “at risk”, being jobless, inactive and with no access to learning. Most economies train much attention on youth unemployment although “unemployment”

underestimates how vulnerable young people can be. Broadening the perspective from unemployed youth to young people not in employment, education or training affords a better insight into the challenges they face. Furthermore, it informs the development of policies that contribute to a better future for them and their countries.

Figure 12.9. Youth unemployment rate

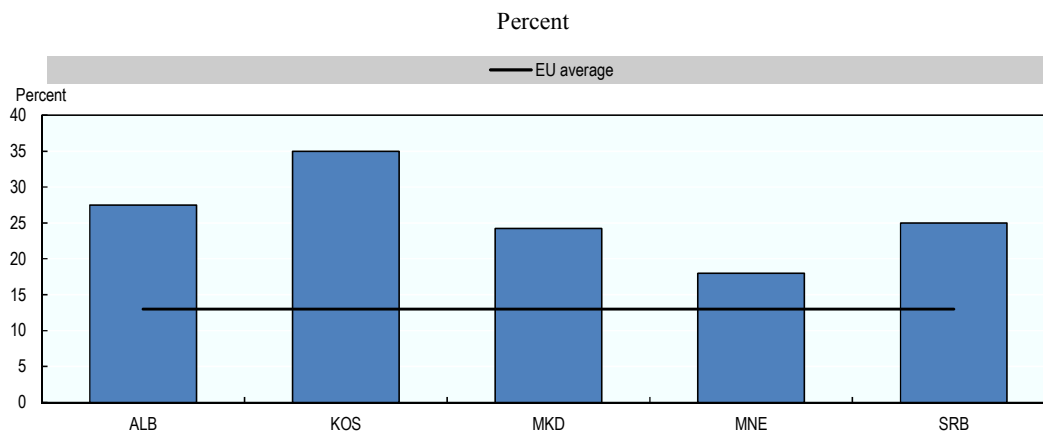


Note: Data for Bosnia and Herzegovina not available for the year 2014. Data for Kosovo not available for the years 2010 and 2011. Data for the Former Yugoslav Republic of Macedonia and Montenegro not available for the year 2014.

Source: EC (2015a), *Employment and unemployment* (Labour force survey, Eurostat database), <http://ec.europa.eu/eurostat/web/lfs/data/database>; ILO (2015), *Key Indicators of the Labour Market* (database), www.ilo.org/empelm/what/WCMS_114240/lang-en/index.htm; Kosovo Agency of Statistics (2015), *Labour Market* (database), <https://ask.rks-gov.net/ENG/labour-market/tables>.

StatLink  <http://dx.doi.org/10.1787/888933322444>

Figure 12.10. NEET rate of 15-24 year-olds, 2013



Note: Data for Bosnia and Herzegovina not available.

Source: EC (2015b), *Education and Training* (Eurostat database), <http://ec.europa.eu/eurostat/web/education-and-training/data/database>; Ministries of Labour of Albania, Kosovo, Montenegro, and Serbia.

StatLink  <http://dx.doi.org/10.1787/888933322451>

Participation in employment, education or training is critical if young people are to establish themselves in the labour market and achieve self-sufficiency. With the exception of Montenegro, the proportion of young people not in employment, education or training (NEET) in the SEE economies is almost double the EU average in.

NEETs are considered “at risk” as they are jobless and inactive and have little access to learning opportunities. Most economies focus on unemployment among the young, which underestimates the full extent of their vulnerability. Expanding the focus to NEETs could afford clearer insight into the challenges that young people face and inform policies that contribute to a better future for them and society.

Inclusive, sustainable growth requires policies that improve employment opportunities and outcomes for the working-age population, particularly those groups that risk long-term exclusion and vulnerability. Two qualitative indicators examine the effectiveness and scope of programmes that target **youth employment** and **vulnerable groups employment** in South East Europe. They measure whether programmes are co-ordinated and to what extent they are implemented and monitored.

Table 12.4. **Labour Market Governance Sub-Dimension: Disadvantaged groups indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Youth employment	3.5	3.0	2.0	3.5	3.0	3.0
Vulnerable groups employment	3.5	3.0	1.5	3.0	3.0	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink  <http://dx.doi.org/10.1787/888933323529>

All national employment strategies in the region emphasise the issue of rising youth unemployment, a social concern which could become even greater in the future. All the SEE economies implement measures to reduce youth unemployment. The only exception is Kosovo where programmes are implemented by donors in an uncoordinated manner – a worrying situation as Kosovo’s youth unemployment rate is among the highest in the region.

Youth employment programmes include professional training in Montenegro, compensation for employers who hire young people in Albania and Bosnia and Herzegovina (at entity level), and “first-chance programmes” in Serbia. Similar programmes in Albania and the Former Yugoslav Republic of Macedonia incorporate a monitoring component.

All SEE economies also take measures to promote employment opportunities for vulnerable groups, such as women, the elderly and minorities. (Again, the exception is Kosovo, where programmes are uncoordinated and donor-run.) Measures include schemes for the Roma minority and the disabled and, in some economies, women. Albania’s programmes have built in monitoring.

Capacity in public employment services needs to be increased for effective employment policy

The Labour Market Governance Sub-Dimension contains a qualitative indicator that assesses the efficiency and effectiveness of the **public employment services** in SEE. To be specific, it assesses their operational structure and capacity. National employment agencies cater primarily to officially registered jobseekers and people who, though

currently employed, are at risk of involuntary job loss due to their employers' economic difficulties – a situation that is particularly relevant in the current period of recovery from the economic crisis.

Table 12.5. **Labour Market Governance Sub-Dimension: Public employment services indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Public employment services	3.0	2.0	2.0	3.0	4.0	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink  <http://dx.doi.org/10.1787/888933323539>

Public employment services exist in all economies. In Bosnia and Herzegovina and Kosovo, employment agencies have a formal mandate to implement active labour market policies. In Albania, the Former Yugoslav Republic and Serbia the duties of PES staff are well defined – in other words, their job is to assist people in finding work and they receive regular training to that end. In Montenegro, an independent assessment body monitored the work of the PES against stated policy objectives, which were then readjusted on the basis of findings. Albania and Bosnia and Herzegovina urgently need to increase capacity and make sure that PES staff perform tasks that go beyond merely registering unemployed clients. Albania, Montenegro and Serbia also need to train staff regularly and consider having their employment agencies assessed by an independent auditor in order to improve efficiency and effectiveness.

Studies have shown that employment agency staff in SEE economies spend most of their time registering clients and providing basic information (Tomev and Meinardus, 2012). Their workload is extremely high, which seriously inhibits the effectiveness of employment policies. The staff-to-client ratio in Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Kosovo is over 1/600 (i.e. 1 staff member for 600 jobseekers), which is very high by international standards (Tomev and Meinardus, 2012). Montenegro has the lowest ratio with 1/84.

Informal employment calls for action to deter, detect and sanction

Another important issue for labour market governance is employment in the informal sector – i.e. all jobs in informal sector enterprises and anyone who, during a given reference period, was employed in at least one informal enterprise.

As argued by La Porta and Shleifer (2014), informality is ultimately the result of both demand (i.e. high demand for basic products supplied by informal firms) and supply factors (i.e. poor skills). Many (possibly most) informal firms are fundamentally different from formal ones and they would be unable to compete in the formal economy, even if the costs of formalisation were low. This is why forcing these firms to enter the formal economy may simply drive them out of business. (OECD, 2015)

The OECD recommends three key measures to promote formalisation. Policy makers need to prioritise and tailor them to their specific context before implementing them. Additionally, they should give special attention to any potentially negative effects, such as increased workforce casualisation – the shift from mostly permanent to contract and casual positions (ibid.).

First, firms and workers need to clearly recognise the benefits of formalisation. Governments should improve the quality of the public services they deliver and strengthen the link between contributions and benefits in social protection schemes. Better public services will increase people's trust in their governments and strengthen their motivation to join the formal sector. The introduction of individual unemployment saving accounts is a good example of how the costs of formalisation can be clearly linked to its benefits, providing incentives to workers to join the formal sector.

[...]

Second, the costs of formality should be lowered for employers and the self-employed. Simplified tax and administrative systems, streamlined registration processes and a reduction in red tape are crucial steps in the right direction.

[...]

Third, enforcement methods should be improved. Enforcement agencies, such as labour inspectorates, should be given sufficient resources to carry out their work effectively. (ibid.)

The most recent World Bank Enterprise Survey reports that one of the most prominent obstacles to doing business is the informal sector, especially in Kosovo where 58.9% of firms identify the practices of informal competitors as a serious constraint. Drawing on household surveys, the ILO estimates that in the Former Yugoslav Republic of Macedonia and Serbia between 6% and 12% of the workforce is employed in the informal sector.

Two qualitative indicators assess the informal sector policy. One examines the effectiveness and scope of programmes to reduce **informal employment**, while the second assesses the capacity of **labour inspectorates** in the SEE region (Table 12.6). They suggest that, given the large estimated share of informal employment and its negative effects on formal business, SEE economies do not sufficiently address informal employment.

Table 12.6. **Labour Market Governance Sub-Dimension: Informal employment indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Informal employment	2.0	1.5	1.5	2.5	2.5	2.0
Labour inspectorate	3.0	3.0	2.0	3.0	1.5	3.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink  <http://dx.doi.org/10.1787/888933323546>

In Bosnia and Herzegovina, Republika Srpska runs a number of programmes with strengthened labour inspectorates to curb informal employment, while the Federation of Bosnia and Herzegovina lacks a coherent approach – as does Kosovo. As for Albania and Serbia, they address informal employment through their SME policies, but do not fully implement measures.

The large numbers of people employed in the informal sector compel the SEE economies to take urgent action. They should start by understanding the costs and benefits of informal employment. Where people have chosen to leave the formal sector, they need incentive to return.

Governments could propose incentives like indexing benefits to social contribution levels or simplifying administrative procedures for businesses and workers. Enforcement measures should also be strengthened. However, not all informal workers opt out of the formal economy voluntarily. Some have no choice. It is important that policies address their needs using an adapted approach (OECD, 2009).

Build the capacity of labour inspectorates

Another line of action is to strengthen labour inspectorates. A well-functioning labour inspectorate is required to effectively ensure compliance with the law. It is an essential part of labour regulation. Labour inspection is certainly as complex an activity as labour standards are broad, often incorporated in legal instruments and raising numerous issues. Inspection is also labour intensive and, without being costly, does need resources and well-trained inspectors to function optimally.

Labour inspectorates exist in all SEE economies. Their tasks include providing education and information on the requirements of legislation, preventing violations of labour standards by offering advice and sanctioning offences. Montenegro scores lowest because it has no specialised labour courts and inspections chiefly target a selected set of businesses. All the SEE economies, with the exception of Kosovo, operate labour inspection databases and have workplaces inspected regularly. Labour legislation, offences and penalties are clearly defined and have been made easily accessible to employers.

The SEE governments should ensure that labour inspectors are independently monitored and that inspectorates should adjust their practices according to findings. Inspectorates should be adequately staffed, too, to meet the ILO recommendations on labour inspections in transition countries – 1 inspection for every 2 000 employees. Inspectors' wages have been brought into line with those possessing similar qualifications in other sectors, though appeal procedures still need to be streamlined.

Box 12.2. Incentives to employ and register the unemployed in the fight against informal employment: good practice from Croatia

In Croatia, employers are awarded grants to employ people from groups threatened by unemployment and at risk of slipping into undeclared work. Grants, for example, enable employers to give young people without relevant experience or education a chance to gain work experience or relevant training, so improving their employability.

Boosting employment is a key goal of the Croatian government. Data from Eurostat show that, in 2011, the youth unemployment rate in Croatia was 35.8%, one of the highest in Europe. In the third quarter of 2011, the long-term unemployed in the country accounted for more than half of unemployed young people. The consequences are low productivity levels, poverty and social exclusion (Bejaković, 2010). Young people with no work experience or relevant education have particularly low levels of employability and highly exposed to unemployment (Bejaković, 2010). For those reasons, the government has created incentives to employ young people and other at-risk groups.

The overriding objective of the incentive scheme is to increase employment in certain social groups. However, it also indirectly facilitates the legalisation of people of working in the informal sector.

Box 12.2. Incentives to employ and register the unemployed in the fight against informal employment: good practice from Croatia (*continued*)

Incentives are designed to employ and register the over 50s, the young with no work experience, the long-term unemployed and people with disabilities. Hiring people from those groups earns employers grants which they can use to strengthen their business. Incentives are also available for the unemployed who wish to be self-employed. Grants in the craft industry are worth EUR 2 500, while for merchants they are EUR 3 250. The hospitality and trade industries are excluded, however, because both are already well developed in Croatia.

In the period from 1 January to 31 March 2009, the incentive scheme supported the employment of 1 003 young people with no work experience, 460 of whom were women (Bejaković, 2010).

The contractual duration of employment is 12 months, so it is unknown whether employers retain the employees they hire under the scheme. However, in Croatia, young people participate in many other active labour market measures such as upskilling, requalification, education and public works, so becoming more employable (Bejaković, 2010). In 2009, a total of 3 025 people took part in training schemes (Bejaković, 2010).

The incentive scheme is obviously transferable between demographic groups. However, the fact that a number of other countries have adopted such policies suggests that it has much wider transferability potential.

Source: Bejaković (2010), *Croatia, EEO Review: Youth Employment Measures*, www.ec.europa.eu/social/BlobServlet?docId=12330&langId=en.

Employment protection legislation

Employment protection legislation (EPL) is designed to increase job security by providing workers with safeguards against risks like the loss of earnings and the obsolescence of their job-specific skills and experience (Box 12.3). However, EPL can sometimes constrain firms so much that it discourages job creation and the reallocation of resources. Striking the right balance between employee protection and the efficient allocation of labour is a priority for policy makers. EPL is a valuable policy instrument in that respect. From both a research and policy perspective, it is important to accurately measure EPL in order to determine its labour market impacts, identify best practices and assess the progress of reform (OECD, 2013a). Two indicators, **EPL for regular contracts** and **EPL for fixed-term contracts** look at the latest EPL estimates for SEE economies.

Table 12.7. Labour Market Governance Sub-Dimension: Employment Protection
Legislation indicator scores

	ALB	BIH	KOS	MKD	MNE	SRB	HRV
Employment protection legislation for regular contracts	2.5	2.6	2.0	2.3	2.9	2.2	2.3
Employment protection legislation for fixed-term contracts	3.3	2.3	0.3	3.3	2.0	3.5	2.9

Note: OECD analysis based on methodology from the Directorate for Employment, Labour and Social Affairs and 21 items reported in the database.

Source: OECD (2015c), *OECD Indicators of Employment Protection* (database), www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.

StatLink  <http://dx.doi.org/10.1787/88893323554>

On average, workers on permanent contracts enjoy greater protection against individual and collective dismissals in Albania, Bosnia and Herzegovina and Montenegro than in OECD countries. In the Former Yugoslav Republic of Macedonia and Croatia, EPL affords much the same safeguards as in the OECD area. When it comes to 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.

Box 12.3. OECD indicators of the strictness of employment protection legislation

The OECD employment protection legislation indicators quantify employer costs and procedures of individual or collective dismissals or hiring workers on fixed-term or temporary-work-agency contracts in force on 1 January of each year. By contrast, the indicators may not always capture how effectively legislation protects workers. Care should therefore be taken when using the indicators for purposes other than measuring legislation-induced costs for employers making staff changes. The indicators' focus on costs to the employer reflects the dominant approach taken in the empirical and theoretical literature that examines the labour market impact of employment protection.

Two summary indicators of EPL are key to policy analysis. One concerns regulations governing individual and collective dismissals of workers with regular, open-ended contracts (EPRC) and the other the regulation of temporary contracts (EPT). The two indicators are made up of four sub-indicators quantifying different aspects of employment protection which are, in turn, broken down into 21 components. The 4 sub-indicators are:

- Regulation of individual dismissal of workers with regular contracts (EPR)

Incorporates three aspects of dismissal protection: the procedure-related inconvenience to employers of starting a dismissal process (e.g. notification and consultation requirements), periods of notice and severance pay which typically vary by employee tenure, and the difficulty of dismissal in some circumstances and the consequences for the employer if a dismissal is found to be unfair (such as compensation and reinstatement).
- Additional restrictions on collective dismissals (EPC)

Includes only additional costs which go beyond those applicable for individual dismissals. It does not reflect the overall strictness of regulations governing collective dismissals, which is the sum of the costs of individual dismissals and any additional cost of collective dismissals.
- Regulation of standard fixed-term contracts (EPFTC)

Quantifies the regulations that govern the hiring of workers on fixed-term contracts. It concerns the types of work for which EPFTC contracts are allowed, their renewal and cumulative duration.
- Regulation of temporary work agency employment (EPTWA)

Quantifies the regulations governing “temp” agency employment, the types of jobs for which EPTWA contracts are allowed, and the renewal and cumulative duration of assignments at the user firm. This measure also includes some of the regulations governing the establishment and operation of temporary work agencies. Accordingly, it covers the requirement that agency workers should enjoy the same pay and/or working conditions as equivalent workers in the user firm, which may make it more costly to use temp agency workers than to hire workers on other types of contracts.

Source: OECD (2013a), *OECD Employment Outlook 2013*, http://dx.doi.org/10.1787/empl_outlook-2013-en.

Social Economy Sub-Dimension

The definition of the concept of “social economy” varies between, and even within, countries. The OECD suggests that “what is critical about the idea of the social economy is that it seeks to capture both the social element as well as the economic element, inherent in those organisations which inhabit the space between the market and the state” (Noya and Clarence, 2007). A more specific definition is required, however, for the purposes of collecting data.

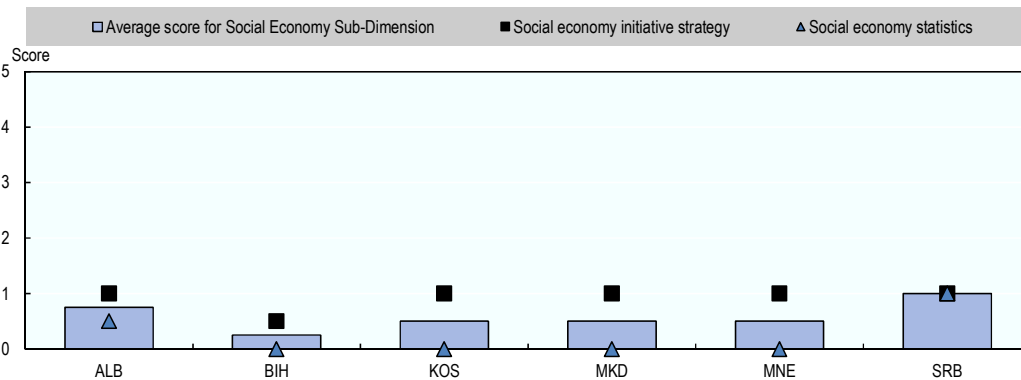
The European Union acknowledges the role of the social economy in addressing unemployment in a sustainable manner and fostering social inclusion. Recent data show that it engages 6.5% of the total working population in the EU and that employment rates in the sector have been steadily rising (EC, 2013b).

The social economy could contribute significantly to greater employment and better provision of social and health services in South East Europe. It also has the potential to generate social innovation in many different sectors. For the time being, however, the social economy is in the very earliest stages of its development (Figure 12.8). The Social Economy Sub-Dimension assesses policy measures, if any, to promote the social economy.

SEE efforts to support social enterprises are still nascent

The SEE economies’ average score in the Social Economy Sub-Dimension is 0.6, which suggests that policy to promote the social economy is still at a very basic level.

Figure 12.11. **Social Economy: Sub-Dimension average scores and indicator scores**



Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink  <http://dx.doi.org/10.1787/888933322460>

The region addresses the social economy, which chiefly comprises social businesses, through social policy and in strategies to promote entrepreneurship and the business development of SMEs. However, such measures are individual and not part of any strategic approach specifically to promote the social economy. The SEE economies have drawn up no legislative framework for social businesses and conduct little formal data collection.

The **social economy initiative strategy** indicator assesses strategic approaches and efforts to support social economy initiatives (SEI). The **social economy statistics** indicator measures baseline statistics collection, an important requirement for institutional

support. More specifically, the indicator assesses the legislative basis for systematic data collection, allocated funds, collection mechanisms, and the distribution and publication of data.

Table 12.8. **Social Economy Sub-Dimension: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Social economy initiative strategy	1.0	0.5	1.0	1.0	1.0	1.0
Social economy statistics	0.5	0.0	0.0	0.0	0.0	1.0

Source: OECD assessment conducted in SEE economies (2015); see methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

StatLink  <http://dx.doi.org/10.1787/888933323566>

With the exception of Serbia, and to some extent Albania, where sporadic statistics on the development of the social economy are made available from a variety of uncoordinated public sources, there are no baseline statistics on the social economy. Nor do there seem to be any plans to collect them in the future. Yet comprehensive, accurate, regularly updated statistics ensure that policy making is evidence-driven and would help to develop the social economy to its full potential. The kind of data that should be collected would include, for example the sector's contribution to employment, the number of businesses, exports and gross value added.

As for strategic approaches to promoting social economy initiatives, the indicator reveals that there are none. All SEE economies need to develop the legal, regulatory and financial framework required to foster the growth of social businesses and entrepreneurship. Such frameworks of support measures should be tailored to the individual needs of each economy. They should also, however:

- Introduce the 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.
- Include tax exemptions or privileges and subsidies.
- Set out stable, predictable funding mechanisms ideally modelled on a grant scheme.

Conclusions

The SEE economies generally show progress in action to improve their employment policy. Most of them have made efforts to design comprehensive employment strategies that address structural unemployment, particularly youth unemployment. They have also taken steps to make their labour markets more flexible.

Despite their achievements, however, the SEE economies share certain weaknesses and their performance falls short of the EU's. They still face a number of challenges. Structural unemployment, especially high youth and long-term unemployment, is a serious issue across the region and has risen in recent years. Public employment services lack the capacity and infrastructure to provide quality support. Staff have to cope with very high workloads, which inhibits effective employment policies and their implementation.

Informal employment is very widespread across the region and few measures to gradually shift informal firms and workers into the formal sector are in place. The lack of reliable labour market statistics is an additional challenge for policy makers.

Rising to those challenges would increase living standards in the region, boost productivity and growth, and foster more inclusive, cohesive societies.

Note

1. A score of 0 denotes minimal policy development while a 5 indicates alignment with good 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 draft or pilot framework, 2 means the framework has been adopted, 3 that it is operational and that the budget is available accordingly, 4 that some monitoring and adjustment has been carried out, and 5 that monitoring and improvement practices are systematic. For more information, please refer to the methodology and assessment process section in this *Competitiveness Outlook 2016* (p. 33).

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