Impact Analysis of Employment Policy and Active Labour Market Programmes in the Republic of Serbia, 2003-2007

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Analysis of Impact of Public Policies Implemented in the Period 2003-2007

Every responsible government bases its public policies on detailed analyses and information. International best practices show that the established system and regular public impact analyses contribute to enhanced transparency of Government work, development of more efficient and effective measures and better allocation of available funds and capacities.

Poverty Reduction Strategy Implementation Focal Point launched the Analysis of Impact of Public Policies implemented in the period 2003-2007 in order to establish how efficient had been certain measures implemented in that period. In this way we have sought to identify measures that led to improvement of the life of citizens in Serbia as well as those that are not cost effective and need to be made either more efficient or revoked.

The analysed measures were identified in cooperation with the colleagues from Governmental and non-governmental agencies.

We analysed the direct impact of active labour employment measures and their indirect impact on poverty reduction. We also analysed the links between employment and education of adults i.e. employment and the implemented additional trainings and re-trainings. Since lack of education has been identified as one of the key causes of poverty in Serbia, particular attention in the analysis was paid to educational interventions taken in the period 2003-2007 and their impact on poverty reduction. We analysed the impact of introduction of mandatory preschool education, examined the relationship between quality of education and poverty as well as impact and efficiency of affirmative measures implemented over the past four years. In the area of health, we analysed the impact of measures targeting the most vulnerable population with a special focus on Roma. In order to complete the image on the efficiency of State measures on the most vulnerable, we conducted a detailed analysis of impact of cash benefits received by the population in Serbia (MOP and child allowances). The impact of material subsidies that small and medium size enterprises were eligible for was also subject of analysis as was the impact of Government measures for agriculture development promotion.

The obtained results in the process of policy impact analyses were presented to relevant Government institutions and civil society. Future directions were agreed jointly. In this way, we enabled direct influence of results of analyses on defining measures for improvement of lives of the most vulnerable citizens of Serbia in the coming years. The process itself will influence development of capacities of Government institutions for regular analysis of impact of public policies and establishment of a continuous process highlighting commitment to development of democratic and accountable government.

The final versions of the above analyses are available at www.prsp.sr.gov.yu

Poverty Reduction Strategy Implementation Focal Point of the Deputy Prime Minister

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Executive Summary

This study provides an assessment of the overall impact of employment policy and active labour market programmes (ALMPs) on general and specific labour market outcomes in Serbia. ALMPs include job brokering and counselling services, training and job subsidies. These programs are implemented by the National Employment Service (NES) to enhance labour supply (e.g., training), increase labour demand (e.g., subsidies) and improve the functioning of the labour market (e.g., job brokering). The impact assessment of these programs covers a period of fast socio-economic transformation in Serbia over 2002-2007. It requires superior sets of detailed, ideally backward-looking data, which are not readily available in Serbia. Therefore, we have opted for an eclectic, pragmatic approach, trying to combine various evaluation and impact analysis approaches in order to get the most realistic idea on the impact of employment policy and ALMPs on employment and unemployment levels.

Our methodology has been specially crafted for this particular task and it rests on two inter-connected pillars: process assessment and impact assessment. While process assessment is based on structural analysis of creation and implementation of employment policy and of creation and implementation of active labour market programmes, our impact assessment strategy is a combination of qualitative and quantitative assessment. Qualitative assessment, is applied largely at the most general level, such as the evaluation of overall impact of employment policy on macroeconomic and labour market dynamics, but also on broader social and political objectives, such as social cohesion and political stability. In addition, we will present results of qualitative assessment of some of the ALMPs in the form of client satisfaction survey, conducted as a part of another previous research effort.

Quantitative assessment is based on what we call *indicative*, or partial impact analysis. It is based on comparison between the level and dynamics of a certain ALMP (or group of ALMPs) and the relative position and dynamics of labour market situation of a population group at which this particular ALMP intervention was targeted. The level (absolute and relative importance) of intervention is measured by its financial cost and/or relative share in ALMPs and the number of included beneficiaries. The dynamics of intervention is measured by the changes in financial resources and number of included beneficiaries over time, or in two points of time. The relative labour market position of a population group is also measured over time and/or in two points of time, in order to see if there is a correlation between the size and dynamics of an ALMP intervention and the size and dynamics of specific labour market indicators at which it is assumed to have an impact.

Besides administrative data sources from the Republican Statistical Office and National Employment Service, the data for this study are drawn from two waves of the Living Standard Measurement Survey (LSMS) conducted in Serbia (excluding Kosovo and Metohia) in May-June 2002 and in May-June 2007. This data ideally suit our purpose having in mind that the reference period for our impact assessment is 2003-2007. However, when we make assessments for the shorter periods of time (or for last two years), having in mind that some ALMPs have been implemented recently, we will also use data derived from the Labour Force Surveys (LFS).

Labour market situation in Serbia is very unfavourable. Job creation in Serbia remains a challenge despite strong economic growth. Unemployment rate is high by any measure, and even more worrisome, employment rate is quite low. Private sector wage employment, which should be the main engine of sustainable employment growth in the future, comprises less than 1,000,000 persons compared to the working age population of more than 5,000,000. It failed to absorb the labour shed by the restructuring and privatisation processes, and to generate enough jobs for youth queuing in the labour market. Despite a shrinking youth population, young people experience a troubled transition from school to work. Employment in the informal economy remains pervasive, accounting for over a third of total employment and increasingly absorbing unqualified and unskilled labour.

Employment policy was not given enough attention in Serbia in the period 2000-2007, both in terms of conceptualization (as it was considered to be only subsidiary or even exogenous to the core reform agenda) and in terms of resources, especially in its segment which is the primary focus of our attention, that is, active labour market policy. This strategic and policy neglect during the process of economic transition probably caused significant worsening of the labour market situation that was deeper and lasted longer than necessary. Thus, employment policy needs to be given a more prominent place and become fully integrated within the overall economic development strategy and policy. Special attention should be given to policies, programmes and measures promoting private sector wage employment.

Expenditures for active labour market programmes were very low (only 0.1% of GDP) and these limited resources, even in the case of their optimal use and maximum impact, could not fundamentally change the general labour outcomes. However, the use of resources for ALMPs was significantly less than optimal. We have identified several main reasons for this conclusion and they are the following: a) political cycles - administrative changes at the levels of ministry in charge of ALMP or National Employment Service - that caused delays in programme implementation; b) weaknesses in policy creation, programme mix and labour market informational base; and c) weaknesses in programme design and monitoring. Active labour market policy needs to be designed and coordinated within a consistent strategic framework periodically adjusted by more flexible medium-term action plans. The National Employment Action Plan should represent the backbone of annual ALMP planning cycle.

Despite the generally modest expectations from ALMPs to be able to fundamentally improve overall labour market indicators, our indicative impact assessment analysis has provided some hints that it has actually been the case with the programme category of Career guidance and counselling. The expansion of these programmes after 2005 has coincided with much larger number of annual gross placements and with significant drop in registered unemployment. Career guidance and counselling appear to be by far the most cost effective programmes measured by spending per participant and by spending per employed persons and needs to be further expanded.

Elsewhere, our indicative impact assessment finds that the impact of programme categories or individual programmes may have been short-lived and limited to relative position of the groups targeted by them. Thus, additional education and trainee programmes may have assisted educated young first-job seekers to further improve their relative position on the market. However, we believe that training programmes need to shift their attention from well educated first-job seeking youth to low-skill long term unemployed, and from classroom to on-the-job programmes.

Self-employment programmes and programmes of subsidies for employers (regional programmes) could not prevent formal self-employment and wage employment from sinking. In both cases, some other forces were apparently much stronger than corresponding ALMPs. Job subsidy programmes should primarily support the recovery of private sector wage employment. Finally, first assessments of relatively new public works programme show that the temporary employment provided by public works does not improve the chances of beneficiaries to find another job.

Introduction

This study provides an assessment of the overall impact of employment policy and active labour market programmes (ALMPs) on general and specific (structural) labour market outcomes in Serbia. ALMPs include job brokering and counselling services, training and job subsidies. These programs are implemented by the National Employment Service to enhance labour supply (e.g., training), increase labour demand (e.g., subsidies) and improve the functioning of the labour market (e.g., job brokering). The impact assessment of these programs covers a period of fast socio-economic transformation in Serbia over 2002-2007. It requires superior sets of detailed, ideally backward-looking data, which are not readily available in Serbia. Therefore, we have opted for an eclectic, pragmatic approach, trying to combine various evaluation and impact analysis approaches in order to get the most realistic idea on the impact of employment policy and ALMPs on employment and unemployment levels. Our methodology has been specially crafted for this particular task to hopefully suit best the aims specified, including that of 'providing feedback on the effectiveness of the implemented measures to influence future policies and programmes'.

The structure of the study is follows. The next chapter details a methodology that allows us to make impact assessment of employment policy and active labour market programmes and reviews data used. Chapter 2 overviews the labour market trends in Serbia in the period 2002-2007. Chapter 3 provides general political, strategic and institutional frameworks for labour market policy. Chapter 4 reviews the implemented active labour market programmes and provide their process evaluation, while Chapter 5 presents indicative impact evaluation of implemented programmes. In addition, Annex 1 is a tabular presentation and Annex 2 gives an overview of relevant international experiences related to active labour market programmes.

Chapter 1. Methodology and data used

1.1. Methodology

Assessing the overall impact of employment policy and active labour market programmes during a period of rapid socio-economic transformation, as was the case in Serbia between during the last seven years, is a very difficult task. If we look at the dynamics of labour market indicators and compare them with the general economic dynamics, the assessment will undoubtedly be negative. However, such approach would be deficient since it would be 'naive to assert that because unemployment rose government efforts and policies did not work. In fact, such results are not in total control of the economic institutions, since they are also affected by external factors, and households' decisions.

Similar or even larger problems arise if one tries to assess the impact of participation in particular ALMPs on well-being of participating (and sometimes non-participating) individuals and their families as well as on the labour market situation. Such evaluations, known as *net impact evaluations*, are very complex, time consuming and expensive and require superior sets of detailed, ideally backward-looking data, which are not readily available in Serbia. But even if done on larger scale, net impact evaluations would provide only a limited, partial and most likely biased picture of the overall impact of employment policy.

Having all these methodological and data limitations in mind, as well as the timeframe and available resources, we have opted for an eclectic, pragmatic approach, trying to combine various approaches in order to get the most realistic idea on the impact of employment policy and ALMPs on general and specific (structural) labour market outcomes in Serbia. Therefore, our methodology has been specially crafted for this particular task to hopefully suit best the aims of this analysis, including that of 'providing feedback on the effectiveness of the implemented measures to influence future policies and programmes'.

Our methodology rests on two inter-connected pillars: process assessment and impact assessment.

Process assessment is based on structural analysis of:

a. Creation and implementation of employment policy
b. Creation and implementation of active labour market programmes

By describing and explaining how strategies, policies and programmes were actually created we want to identify all potential important departures from optimal ('benchmark') practices in policy creation. This assessment of policy formulation process can be expressed only in qualitative, rather subjective terms.

On the other hand, assessment of implementation in principle can be judged quantitatively, by the self-imposed criteria as they were defined in respective strategies and programmes. For example, one such criterion could be strategic objective to increase employment rate by certain number of percentage points over a certain period of time. Or, at the programme level, the goal to engage certain number of beneficiaries over a year in, say, specific training programme, spending up to X dinars, having less than 5% of dropouts and having at least 50% of participants employed within 6 months following the completion of the programme.

Impact assessment, as we define it for the purpose of this particular analysis, aims to assess what has been the actual impact of employment policy, and especially ALMPs, on general and specific labour market outcomes, i.e. the extent to which the policy intervention has improved (or prevented from worsening) the labour market situation as a whole or the situation of specific groups of working age population. In addition to supposed immediate impact on labour market outcomes, wider socio

economic impact (including on poverty reduction, social cohesion and political stability) should be taken into consideration.

It is clear that it is far more difficult to undertake impact assessment, not only in its most rigorous and technically demanding form of *net impact evaluation*, but also at the macroeconomic level. We will show that the employment policy making was rather implicit (not fully and consistently articulated) and for the most part exogenous to overall reform strategy; therefore, part of our effort would be to reconstruct the 'true' intentions and objectives of policymakers. However, isolating the contribution of employment policy from other simultaneously applied policies would still require a lot of heroic assumptions. In addition, active labour market programming, although quite stable in some parts, underwent significant and almost continuous changes in other important segments on a yearly basis, making some of the ALMPs moving targets for any sort of impact assessment.

Having all these limitations in mind, our impact assessment strategy is a combination of qualitative and quantitative assessment. Qualitative assessment is applied largely at the most general level, such as the evaluation of overall impact of employment policy on macroeconomic and labour market dynamics, but also on broader social and political objectives, such as social cohesion and political stability.

Quantitative assessment, to the extent it is done as original research within this study, is based on what we call *indicative*, or *partial impact analysis*. It is based on comparison between the level and dynamics of a certain ALMP (or group of ALMPs) and the relative position and dynamics of labour market situation of a population group at which this particular ALMP intervention was targeted. The level (absolute and relative importance) of intervention is measured by its financial cost and/or relative share in ALMPs and the number of included beneficiaries. The *dynamics of intervention* is measured by the changes in financial resources and number of included beneficiaries over time, or in two points of time. The *relative labour market position of a population group* is also measured over time and/or in two points of time, in order to see if there is a correlation between the size and dynamics of an ALMP intervention and the size and dynamics of specific labour market indicators at which it is assumed to have an impact.

Of course, the interpretation of any indicative impact analysis needs to be done very cautiously. The improvement in relative labour market position of a specific group might be a result of a more massive ALMP intervention, but could also be a result of many other unrelated factors. Even if particular group improvement could reasonably be linked to the intervention, it might have negative effects on other groups. Such is the case with displacement and substitution effects, which could not be captured with this kind of analysis. However, all these interpretation limitations are also largely present in more sophisticated impact evaluations and should not prevent us from making indicative impact assessments, relying not only on specific set of input and output indicators, but also using all other available sources.

1.2. Data

The data for this study are drawn from two waves of the Living Standard Measurement Survey (LSMS) conducted in Serbia (excluding Kosovo and Metohija) in May-June 2002 and in May-June 2007. In line with standard LSMS methodology, the surveys collected information from households and individuals on their income and consumption level, economic activities with detailed labour market position and other characteristics. The total number of interviewed households was 6,386 in 2002 corresponding to 17,357 individuals, and 5,557 households (19,725 individuals) in 2007. The data are representative at the national level, and by regions (6 regions) and type of settlement (urban/rural).

These data ideally suit our purpose having in mind that the reference period for our impact assessment is 2003-2007. Thus, the changes in the labour market indicators that will be used for our impact assessment can be tracked using the comparable survey data. In addition, these data allow us to make estimates of the informal employment in Serbia, given that these information appear rather limited in the Labour Force Surveys (LFS).

However, in many cases when we need to make assessments for the shorter time period (or for the last two years, having in mind that some active labour market programmes (ALMPs) have been implemented recently), we will also use the data derived from the LFS. LFS is conducted on a yearly basis since 1995. In 2004, the sampling, design and overall methodology were adjusted to the ILO and EUROSTAT standards and the data are comparable for the period 2004-2007. The survey covered roughly between 17,000 and 18,000 individuals each year. The data are representative at the national level, for urban and rural areas, and at the level of three main regions (Belgrade, Central Serbia and Vojvodina).

Regarding administrative data sources, we used the data on the registered number of employed from the Republic Statistical Office (RAD survey), as well as the data from the National Employment Service (i.e., registered number of unemployed, gross number of job placements, financial costs of ALMPs etc.).

Chapter 2. Overview of the labour market trends 2002-2007

2.1. Dynamics of main labour market indicators

The new Serbian government launched a sweeping reform programme aimed at accelerating the transition to a market economy in 2001. Since then, the economy has expanded and living standards have improved. The economic reforms centred on: macroeconomic stabilization, price and foreign exchange liberalization, the restructuring of the banking system, the privatization of state- and socially-owned enterprises and improvements in the business regulatory framework (World Bank, 2006). These reforms have stimulated capital inflows and led to a shift in economic activity to the private sector. There has been a sharp reduction in annual inflation and steady real economic growth averaging about 6 percent per year over 2001-2006 (see World Bank (2004)). However, the negative 1990s trends of declining employment and increasing unemployment continued in the period 2000-2006. In spite of some modest progress on a number of fronts, the EBRD *Transition Indicators of Cumulative Reform Progress* continue to rank Serbia close to the bottom of transition economies (EBRD, 2007). In particular, the formal labour market in Serbia, despite the introduction of improved legislation on labour and employment, remained relatively rigid over the post-2000 period and functioned poorly in contrast to its considerably more flexible informal counterpart (see World Bank (2004)).

Table 2.1 Employment trends, in thousands, 2002-2007

	Overall registered employed, administrative data	Employees	Non-farm self-employed	Overall employed (15-64), LSMS data
2002	2067	1677	390	3007
2003	2041	1612	430	…
2004	2051	1580	471	…
2005	2069	1546	523	…
2006	2026	1472	554	…
2007	2002	1433	569	2814

Source: Statistical Yearbook 2007, RSO and Report RSO on employment in 2007; LSMS 2002, 2007.

Table 2.2: Key labour market indicators for Serbia by age and sex, 2002-2007 (percentages)

Age groups	Participation rate		Employment rate		Unemployment rate (ILO definition)	
	2002	2007	2002	2007	2002	2007
	All					
15 to 64	67.2	64.2	59.3	55.3	11.7	13.9
15 to 24	38.2	30.5	23.9	19.2	37.4	37.2
25 to 34	83.7	82.1	70.8	67.9	15.4	17.3
35 to 54	83.5	81.9	77.9	73.7	6.7	10.0
55 to 64	41.1	42.4	40.2	39.6	2.2	6.7
	Men					
15 to 64	75.6	72.7	68.2	64.1	9.8	11.8
15 to 24	41.0	36.0	25.6	24.1	37.6	33.0
25 to 34	89.7	89.5	78.6	76.3	12.3	14.8
35 to 54	92.3	89.8	87.9	82.9	4.8	7.8
55 to 64	58.1	55.9	56.6	52.3	2.6	6.4
	Women					
15 to 64	59.0	56.1	50.6	46.8	14.1	16.5
15 to 24	35.2	25.0	22.2	14.2	37.1	43.2
25 to 34	77.7	74.4	62.8	59.1	19.1	20.5
35 to 54	75.1	74.4	68.3	65.1	9.0	12.5
55 to 64	25.4	30.2	25.0	28.0	1.5	7.3

Source: Serbia: LSMS 2002, 2007.

Note: Labour force participation rate is defined as a percentage of labour force in working age population (15–64). Employment rate is defined as a percentage of the employed in working age population. Unemployment rate is defined as a percentage of the unemployed in the labour force. Labour force is the sum of the employed and unemployed. The unemployed are defined as individuals (1) not working in the last week and (2) actively seeking a job in the last four weeks and (3) willing to take up a job in the next two weeks (ILO definition).

According to administrative data which covers employees and non-farm self-employed, employment dropped by about 2 per cent over 2003-2007 and by about 3 percent (or by 65,000 persons) over 2002-2007 (Table 3.1). According to LSMS data which captures overall employment, this declining trend was even more pronounced, as overall employment dropped by 6.4 percent or by about 193,000 persons over 2002-2007. It may be worth emphasizing that LSMS data captures categories not covered by administrative sources such as: farm self-employed, unpaid family workers, military and defence workers, workers with service contracts, as well as workers in the informal economy.[1] The major reductions in employment have occurred in large and medium-sized enterprises and in farming. The expansion of the non-agricultural private sector failed to absorb the labour shed by the restructuring and privatisation processes on the one hand, and to generate enough jobs on the other.

Although employment declined over the period in question (2002-2007), it is important to note that some positive trends in the labour market were observed in 2007 according to the LFS data (Table A1 in the

[1] A part of workers belonging to some of these categories (e.i., farm self-employed, unpaid family workers) work informally (see section on informal employment).

Annex). Employment started to increase for the first time, although negligible (by 0.3 percent or by 8,800 persons), while unemployment declined considerably (by 15.6 percent or by 107,661 persons).

Table 2.2 contains the main labour market indicators in Serbia in 2002 and 2007. All main labour indicators appear weaker in 2007 than five years ago. Both the participation and employment rates have declined by 3 and 4 percentage points respectively, while the unemployment rate has increased by nearly 2 percentage points. These data suggest that job creation in Serbia remains a challenge, despite the strong economic growth over this period.

The labour force participation of 64.2 percent in Serbia for 2007 is significantly below the EU27 average (Table 2.3), but comparable with the rates of countries like Croatia, Bulgaria and Romania. Serbia is quite far away from reaching the employment rate of 70 percent - the objective set by the Lisbon strategy in 2000. The overall participation rate is affected by the low participation of women, particularly the younger cohort, mostly due to family responsibilities.

Table 2.3: Participation, employment and unemployment in selected countries and Kosovo (percentages)

	Participation rate		Employment rate		Unemployment rate (ILO)	
	All	Women	All	Women	All	Women
EU 27	70.9	63.7	66.0	58.8	6.8	7.3
Serbia	64.2	56.1	55.3	46.8	13.9	16.5
Kosovo	46.2	25.3	27.9	9.9	39.7	60.7
Bulgaria	67.2	63.3	62.7	58.6	5.8	6.4
Croatia	63.7	58.3	56.8	51.0	13.4	14.3
Romania	64.6	57.7	60.5	54.5	7.0	5.9

Source: Corbanese and Rosas (2006) for Kosovo; LSMS 2007 for Serbia;
Other data according to EUROSTAT, Labour market latest trends, 4/2008 (III quarter 2007; for Croatia III 2006) and Euro–indicators 13/2008 (December 2007; for Croatia IV 2005).

The employment rate of 55.3 percent in 2007 is considerably below the EU27, but also below the rates for neighbouring countries (Croatia, Bulgaria, Romania). Women and young people are less likely to be employed, although for young people, low employment rate is partly explained by school attendance (57 percent) and while attending school most of them usually do not work (Krstić and Corbanese, 2008). For youths aged 15-24, employment rate was only 24 percent in 2002, and it further declined to 19 percent in 2007, which is predominantly the result of declined employment rate of young women.

Table 2.4: Structure of employment by various characteristics, 2002–2007 (%)

	2002	2007
Economic sector		
Agriculture	22.6	19.3
Industry	25.5	29.1
Services	52.0	51.6
Employment status		
Wage-employment	85.0	75.0
Non-farm self–employed	5.1	13.4
Farmers	9.0	7.5
Unpaid family workers	0.9	4.1
Type of business*		
Private sector	…	66.2
State sector	…	27.7
Socially–owned sector	…	4.6
Other	…	1.5

Source: LSMS 2002, 2007.

* Structure of employment by type of business is not comparable between 2002 and 2007, as the question on business ownership in 2002 differs as compared to 2007.

Most young people in Serbia often face problems in making a smooth and quick transition from education to work. While some will, eventually, make it into a permanent job, a significant part remains trapped in temporary and low-paid jobs from which they find it difficult to exit (see section on informal employment). A worrying aspect of youth transition in many countries is the large proportion of idle youths, as measured by the share of the youth population neither in school nor in employment (OECD, 2006). In Serbia, more than a third of the youth population 15-24 are neither in employment nor in education or training (Krstić and Corbanese, 2008).

Flexible segment of the labour market is still limited in Serbia, although some improvements in this respect are evident. While part–time jobs were almost non–existent in 2002 (Krstić, 2004), this fraction accounted for 7.5 percent in 2007. Similarly, temporary work with temporary or fixed term contracts was not common type of employment, as it accounted for only 5 percent of total employment in 2002, but it considerably increased to 12 percent in 2007. Flexible forms of employment could be important to improve employment opportunities, especially for women and youth which are the least employed groups in Serbia. The question is whether these flexible forms of employment will lead to more stable employment prospects, or will have a negative impact on future labour market outcomes, increasing the risk of moving from one temporary job to another without being able to build a career (Rosas and Rossignotti, 2005).

According to the LSMS data, 66 percent of employment was in the private sector, while employment in agriculture accounted for 19 percent in 2007 (Table 2.4). Employment in the service sector accounted for around 52 percent. The share of employment in market–oriented services in Serbia is higher than in the CEE countries (60 percent versus 56 percent). A dominant share of employment in the service sector in OECD countries indicates potentials for further development of the service sector in Serbia which could absorb excess labour during the further enterprise restructuring. Over the last five years (2002-2007), the share of employment in service sector remained relatively stable, the share of employment in industry increased, while share of employment in agriculture declined. However, although the agricultural employment share declined by about 3 percentage points, it remained greater than in any EU country except Romania. According to the status in employment, majority of workers were employees, but its share in overall employment declined over 2002-2007 (from 85 percent to 75 percent). The share of non-farm self–employed increased (from 5.1 percent to 13.4 percent), while the share of farmers declined (from 9 percent to 7.5 percent).

Based on these data, it appears that quality of jobs improved due to the shift in labour out of the agricultural sector to more high-productive jobs in industry. In addition, there is significant growth of self-employment in non-agricultural sector, although not yet sufficient to compensate for the large job losses in socially-owned sector. Other data (LFS) show that employment in low-productive socially-owned sector declined from 15 percent to 6 percent over 2004-2007, while private sector employment increased from 57 percent to 65 percent. In section 4.3, we will examine whether quality of employment have been really improved by estimating the informality of overall employment.

2.2. Dimensions and characteristics of unemployment

Unemployment remains a serious challenge for Serbia, as between 14 percent and 19 percent of the labour force was unemployed according to various data sources (i.e., LSMS, LFS), while the number of registered unemployed reached 850,000 in 2007. The analysis in this section will be mainly based on the LSMS data from 2002 and 2007 in order to cover period of adopted and implemented Government strategies and reforms over the period 2003-2007. The registered number of unemployed recorded by the National Employment Service (NES) is available since 2004, due to changes in definition of unemployed adopted in 2004.

Table 2.5 Unemployment trends, 2002-2007

	Registered unemployed(15-65), NES	Registered unemployment rate, NES	Unemployed (15-64), LSMS	Unemployment rate (15-64), LSMS
2002	…	…	399,823	11.7
2003	…	…		…
2004	859,728	26.2		…
2005	888,386	26.8		…
2006	913,293	27.9		…
2007	850,003	26.8	453,875	13.9

Source: Statistical Yearbook 2007, RSO and Report RSO on employment in 2007; LSMS 2002, 2007.

According to the LSMS data, the number of unemployed increased by 54,052 over 2002-2007, while the unemployment rate increased from 11.7 percent to 13.9 percent (Table 2.5). Although this rate appears significantly lower than the unemployment rate based on the LFS data (18.8 percent in 2007)[2], it is still among the highest in the region and considerably higher than the unemployment rate for the entire EU27 which amounted to 6.8%. Only three countries (ex–Yugoslav republics) – FR Macedonia, Bosnia and Herzegovina and Montenegro – have higher unemployment rates than Serbia. Women, particularly young are more likely to be unemployed than their male counterparts, despite their better educational achievement, as well as poorly educated and residents in urban areas (Table 2.6).

The difference between data on the number of unemployed coming from the NES and the LSMS is quite high. In May 2007, number of registered unemployed was 870,559 while according to the LSMS conducted in May-June 2007, it was 453,875. This difference, in addition to differences in methodology, mainly originate from individuals who may register in order to get access to various types of benefits provided by the NES (unemployment benefits, health insurance and social assistance benefits), although they actually have informal sector job and, therefore, may not be actively searching for a job. This is supported by the latest 2007 LSMS results, as among those who reported in the LSMS that they registered with the NES in order to find a job, only 42% were actually unemployed according the ILO definition, 35% were employed and 23% were inactive individuals. Among those actually employed but registered as unemployed, 95 percent work in the informal economy.

[2] One of the main reasons for much higher unemployment rate based on the LFS than the one based on the LSMS data is seasonal effect, as the LSMS was conducted in May-June, while the LFS was conducted in October. This is partly confirmed by the latest LFS data from April 2008, which shows considerably lower unemployment rate than according to the same data source from October 2007 (14% versus 18.8%, respectively). We believe that significant part of the decline in the number of unemployed persons (26% or by around 150,000 people aged 15-64) over the six months period (October 2007 -April 2008) is driven by increased seasonal employment. However, this could be confirmed by the next round of the LFS that will be conducted in October 2008.

Table 2.6: Unemployment duration and long-term unemployment by sex, age, education and location, 2002-2007

	Composition of unemployed		Unemployment rate		Composition of LTU	Incidence of LTU
	2002	2007	2002	2007	2007	2007
Total	100.0	100.0	11.7	13.9	100.0	74.2
Sex						
Women	53.6	53.0	14.1	16.5	53.2	74.5
Men	46.4	47.0	9.8	11.8	46.8	73.8
Age group						
15 to 24	35.0	24.8	37.4	37.2	21.4	64.0
25 to 34	32.1	30.7	15.4	17.3	30.8	74.5
35 to 64	32.9	44.5	6.0	9.4	47.8	79.6
Education						
Primary or less	21.2	21.7	10.3	14.9	22.5	76.9
Secondary education	68.4	67.6	13.5	15.4	68.9	75.7
Higher education	10.4	10.7	7.6	7.9	8.6	59.2
Location						
Other	38.3	38.7	10.6	13.1	41.4	79.2
Urban (city)	61.7	61.3	12.6	14.4	58.6	71.0

Source: LSMS 2002, 2007.

Composition of unemployed by various characteristics appears stable over 2002-2007, except according to age groups, as the share of young people in unemployment significantly declined (from 35 percent to 25 percent). Majority of unemployed in 2007 were adults aged 35-64 years, those with secondary education and those residing in urban areas.

Unemployed varies across individual characteristics. Among people in the labour force, more women were unemployed compared to men (16.5 per cent and 11.8 per cent in 2007), notwithstanding their higher educational attainment (6.4 per cent of women had completed higher education compared to 3.9 percent of men). Young people appear much more likely to be unemployed compared to adults. A useful indicator that measures youth disadvantage in the labour market is the youth (up to the age of 25)-to-adult unemployment rate. In 2007, this rate was 3:2, indicating that young people were over three times as likely to be unemployed as adults. The standard relation between educational attainment and unemployment - the lowest incidence of unemployment among higher educated - is evident. Finally, urban residents were more likely to be unemployed compared to rural residents. This points to the role of farming as a coping strategy for those who would have been otherwise jobless or under-employed persons.

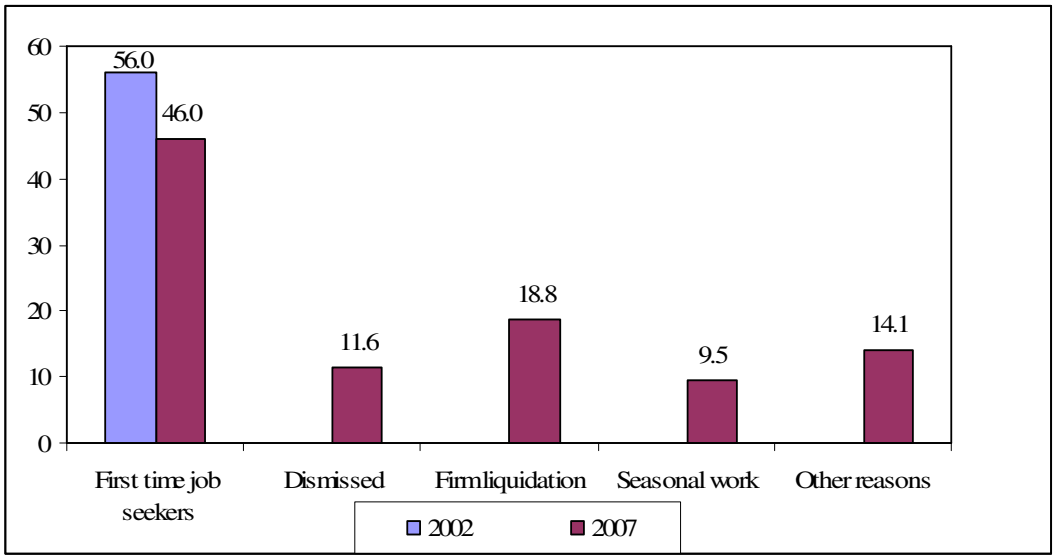
Another important characteristic of unemployment is its duration, as many workers, once they become unemployed remain without work for very long periods. The incidence of long–term unemployment is extremely high as some 74 percent of the unemployed in Serbia in 2007 were jobless for at least a year, and 33 percent for over four years. A long–term character of unemployment in Serbia might have deep implications for wasting human resources, but also might have social repercussions for the unemployed.

International evidence shows that probability of finding job decreases with duration of unemployment which may lead to permanent labour market exclusion and high poverty risk.

Unemployed people faced the highest poverty risk compared to other labour market categories in both years considered. Although poverty incidence among the unemployed declined over 2002-2007 as among other categories in the labour market, the reduction was the smallest for the unemployed, suggesting that one of the main causes of poverty is lack of employment (see RSO, 2008).

The structure of the unemployed by previous labour market status has changed since 2002, with an increased share of job losers compared to new entrants, which indicates intensified restructuring of socially and state owned enterprises over the last five years. The share of new entrants significantly declined, from 56 percent in 2002 to 46 percent in 2007. Amongst unemployed persons with work experience, over half have been dismissed or their employers have gone out of business (Figure 2.1).

Figure 2.1. First time job seekers, 2002-2007



Note: In 2002 LSMS, no information is available on reasons of unemployment for those with working experience.
Source: LSMS 2002, 2007.

2.3. Informal employment

According to the LSMS data, informal employment in Serbia increased over 2002-2007. Nearly 28 percent of total employment (aged 15-64) was in the informal sector in 2002, and this percentage increased to 35 percent in 2007. Among employees, the share of those working informally increased from 11 percent to 20 percent over 2002-2007. If we add those who worked with a verbal, or no contract with the employer (this information is available only in 2007) to those already defined as informally employed in 2007, the percentage of informally employed increased from 35 percent to 37 percent.

Table 2.7. Characteristics of employment in formal and informal economy, 2002-2007
(in %, population between 15-64)

		2002			2007	
	Informal	Formal	All	Informal	Formal	All
All	100.0	100.0	100.0	100.0	100.0	100.0
Gender						
Male	59.9	55.4	56.7	59.4	55.5	56.9
Female	40.1	44.6	43.3	40.6	44.5	43.1
Age categories						
15-25	15.1	7.9	9.9	10.7	7.3	8.5
26-45	45.8	53.0	51.0	44.3	53.0	50.0
46-64	39.1	39.1	39.1	45.0	39.7	41.5
Educational level						
No school or incomplete primary	12.9	4.3	6.6	9.3	1.1	4.0
Primary school	26.5	14.9	18.1	27.4	9.9	16.0
Vocational or three-year secondary	24.2	21.0	21.9	18.7	16.3	17.1
Secondary or high school	29.5	39.0	36.4	35.8	46.5	42.8
Collage	4.0	8.1	7.0	3.7	9.4	7.4
University	2.9	12.6	10.0	5.1	16.8	12.7
Employment type						
Wage-employment	60.7	91.1	85.0	49.2	88.9	75.0
Self-employment	9.9	3.9	5.1	14.2	1.9	6.2
Farmers	26.7	4.6	9.0	25.3	9.1	14.7
Unpaid family workers	2.8	0.5	0.9	11.4	0.2	4.1

Sector of economic activity						
Agriculture	40.8	15.5	22.6	44.5	5.8	19.3
Industry	12.7	30.4	25.5	21.9	32.9	29.1
Services	46.6	54.1	52.0	33.6	61.3	51.6
Average hourly net main job earnings (in dinars)*	8,634.3	9,425.2	9,272.8	16,246.5	24,707.0	22,495. 7
Coefficient. of variation for monthly net main job earnings	1.123	0.795	0.861	0.805	0.633	0.689

Notes:* For those who reported positive hours worked.
Source: LSMS 2002 and 2007.

Table 2.7 contains detailed breakdown of the two categories – formal and informal employment. Several points of interest arise. First, it seems that males, young (aged 15-25), less educated, workers in non-wage employment, and in agriculture are more likely to be employed in informal than in formal activities in both years considered. Second, comparing the informal economy between 2002 and 2007, it appears that the share of older workers (aged 46-64) in the informal economy increased, as well as the share of better educated (having secondary education or more), self-employed and unpaid family workers, while the share of workers in services declined. Third, informal workers earn less than formal workers in both years considered (about 8 per cent and 43 per cent in 2002 and 2007 respectively) and this gap has increased over 2002-2007. Earnings in the informal sector also tend to be more dispersed, as measured by the coefficient of variation for monthly earnings.

This rise in informal employment has come about despite the improved business climate over the period in question. Why has this happened?

One possible reason for this unexpected result is the regressiveness of the wage taxation system that was present since 2001 until 1 January 2007 (see section 4.3). By imposing a high tax burden on low-income labour,[3] the incentives for employees to join the formal economy diminish, as they have to give up a significant portion of what they can get by working at the same job informally. Employers also have an incentive to evade this tax, for the same reason (Arandarenko and Vukojević, 2008).

Informal employment was until recently also encouraged by the ease in gaining access to a range of social benefits by the simple act of registering as unemployed with the National Employment Service (NES). The fact that many registered unemployed were in fact working in the informal economy (33 percent) and had easy access to health insurance represented a hidden subsidy to enterprises engaged in the informal economy (Krstić and Corbanese, 2008). Such occurrences are now ruled out; NES is no longer responsible for covering health insurance for jobseekers.

The share of employees working in the informal economy in Serbia increased considerably, from 11 percent to 20 percent over 2002-2007. This is mainly driven by increased share of those who did not pay social security contributions. It appears that reforms on labour taxes and social security contributions, introduced at the beginning of 2007 (see section 3.3), have not yet bring a visible reduction in informal employment and an increase in formal employment, although the average fiscal

[3] The tax wedge for low wage earner receiving 33% of average wage was 47.1%; for a worker receiving average wage it was 42.2%, while it was down to 34.5% for a wage eight times higher than the average wage (even after accounting for annual personal income tax).

burden of employees' net salaries decreased from 73 percent to 62 percent (Krstić and Corbanese, 2008).

There is no doubt that Serbia made significant progresses in the improvement of the business climate over the years considered, as numerous surveys indicate. However, the latest World Banks *Doing Business 2008* indicators show that Serbia scored lower than in the previous year in some of the areas studied, but particularly in the area of paying taxes and starting a new business. Policy-makers therefore need to re-double efforts to simplify the tax system and ensure firms and workers have an incentive to register and operate within formal structures. Formalization may be promoted by better enforcement of tax collection and more effective tax administration.

Chapter 3. Active labour market policy making – institutional context, strategies, actors, targets

3.1. General political framework for employment policy making

After a decade of semi-autocratic rule that brought about enormous economic and social hardship for Serbian population, the regime of Milosević eventually lost popular support at the elections in Autumn of 2000. A wide coalition called the Democratic Opposition of Serbia (DOS) took over the most important reigns of power in Serbia.

DOS started to implement a programme of radical economic reforms which was a standard neo-liberal reform package coupled with somewhat stronger emphasis on social justice and social dialogue. Employment policy, understood in its wider notion as consistent mix of various sectoral economic policies aimed at employment generation, was basically treated as exogenous to the reform process and reduced to a supporting legislative labour market reform which was aimed at bringing more labour market flexibility in order to support the core processes of market liberalisation and privatisation.

The timeline presented below in Table 3.1, summarizing organizational, political and personal changes within the ministries responsible for creation and implementation of active labour market policy, can serve as a convincing illustration that the employment policy making wasn't receiving enough attention during the entire period after the regime change in October 2000 until 2007.

As is visible from Table 3.1, after every election cycle there was an organizational reshuffle affecting the ministry in charge of the creation of active labour market policy. In Spring 2001, former Ministry of Labour, War Veteran, Disability and Social Affairs was split into two, and new Ministry of Labour and Employment was created. In 2004, a reverse operation took place, with the creation of Ministry of Labour, Employment and Social Policy. In 2007, even more dramatic change occurred: Sector for Employment was taken away from the former MOLESP and joined the newly formed Ministry of Economy and Regional Development. These organizational changes have meant that there were prolonged periods of effective paralysis of activity of Employment Sector and of those programmes of the NES which were dependent on the Ministry's approval. These unfavourable consequences will be elaborated in the following Chapter 4, where the clear connection between the failure of NES to achieve financial and beneficiary coverage targets and the election cycle will be established.

Table 3.1: Timeline and assessment of actors in charge of active labour market policy making in Serbia, 2000-2008

	10/2000-03/2001	03/2001-03/2003 and 03/2003-03/2004	03/2004-05/2007	06/2007-06/2008
Governments 2000-2008	Interim Government	DOS governments of Djindjić and Zivković	DSS-G17Plus minority government of Kostunica	DS-DSS-G17Plus government of Kostunica
Ministry responsible for active labour market policy	Ministry of **labour**, war veteran, disability and social affairs	Ministry of labour and **employment**	Ministry of labour, **employment** and social policy	Ministry of economy and regional development
Minister and his/her party affiliation	Gordana Matković, Democratic Party	Dragan Milovanović, AFITU union confederation, later Labour Party	Slobodan Lalović, Social Democratic Party	Mladjan Dinkić, G17 Plus
Number of party seats in National Assembly of 250 MPs	n.a.	2	4	19
Assessment of Minister's personal leverage	Strong (top expert)	Very weak	Weak	Very strong (party leader and expert)
Assessment of leverage of party in charge of the Ministry	Dominant	Very weak	Very weak	Strong
NES Director		Svetozar Krstić, appointed by Democratic Party	Radovan Ristanović, appointed by Social Democratic Party	Tamara Samardzić, appointed by G17 Plus

Another notable conclusion from the above Chart, confirming the peripheral importance that was given to employment (and to some degree also to wider labour and social policy portfolio) is the fact that it was the weakest partners in coalition governments formed from 2001 to 2007 to get to run the Employment Sector.
Party in charge of Employment Sector has also had the right to appoint the Director of NES, who was being replaced after every ministerial change. Despite repeated efforts to create professional management of NES, party influence has been felt very deep down the managerial ladders, including some professional positions as well. Actually, with the passage of time party appointees gradually over-populated NES, due to the practice of degradation of politically appointed managers into 'professionals' within the NES with every leadership change.

Obviously, negative consequences of these frequent politically induced changes must have been strong because of discontinuity and longer start-up periods for new Ministry/NES leaderships, especially if also within a new administrative environment. Not only were they causing meandering in strategies and policy making, but also (and more hampering for the beneficiaries) delays and interruptions in programme implementation. The most drastic example happened in 2004 – ALMPs all but ceased for most of the year because of the government change and paralysis of the Managing Board of NES, this

situation coinciding (true, not necessarily correlated) with the most drastic annual jump in unemployment rate.

The role of trade unions and employers' associations as social partners in creation of employment policy and administration of NES has been modest at best. Apart from facing a secular decline, trade unions in Serbia have been notoriously divided and unable to stage unified industrial actions on a larger scale. On the other hand, employers' associations are a rather recent creation and still have modest membership and are lacking full legitimacy.

3.2. Employment policy after 2000

As in other countries in transition under the dominant influence of Washington consensus institutions the reform strategists at the start of reform process in 2001 perceived labour market reforms as auxiliary and exogenous to core reform process in essence (Arandarenko, 2004; Arandarenko and Golicin, 2007). Serbian government took for granted a well known free-market recipe – the most efficient way to enhance employment generation is *via* restructuring and privatization coupled with sound institutions, of which the flexibilization of labour market legislation is one of the pillars. Indeed, one of the priorities of the new Government was the introduction of new Labour Code, which was, amid the protests of major trade unions, enacted already in 2001.

However, the encompassing employment policy or even active labour market policy creation have not been explicitly defined and put together into a consistent policy framework before 2005. True, all-encompassing Poverty Reduction Strategy Paper, the end result of an inclusive strategy definition process which lasted between 2001 and 2003, represented a huge step forward, containing *employment policy recommendations* within a separate section. However, these recommendations are not fully developed and consistent, and the prioritization for active labour market intervention is largely missing. Actually, there is an over-emphasis on self-employment promotion in the PRSP, which has possibly influenced not only huge increase of this type of intervention within the NES-managed ALMPs, but also the flourishing of SME strategies and SME development support centres.

As already suggested, the PRSP unfortunately does not offer a fully consistent strategic vision of employment policy, nor does it properly differentiate between the general employment policy and more concrete active labour market policy. For example, mixing overarching goals and policy priorities, the PRSP stipulates that employment policy should be based on four strategic pillars – *development of entrepreneurship*; *improvement of skills of unemployed workers*; *improvement of adaptability and mobility of labour market and unemployed*; and *creation of equal opportunities for employment of women and men* (PRSP, 2003, p.89).

The National Employment Strategy 2005-2010 (MLSP, 2005) was adopted in spring 2005 after a process that lasted around two years. It incorporates three goals of the EU Lisbon Strategy – full employment (revised in Serbian conditions to satisfactory employment rate increase), improving quality and productivity of labour and strengthening social cohesion and labour market inclusion – and it fully embraces the integrated approach of the EU Employment Strategy 2003.

Among the active labour market programmes Strategy singles out the *job brokering services* centered around the promotion of active job search as the most important and probably most efficient type of ALMP. As developed in the Strategy, this crucial function requires a capacity to organise targeted activities at limited cost as a direct complement to basic job counselling, e.g. skill assessment, CV drafting, interview techniques, individual action plans, job clubs and special activities with vulnerable groups. Concerning other ALMPs – which generally are more expensive – the Strategy takes note of the mixed results documented in the international evaluation literature, which give reason for caution with large-scale job-subsidy and training schemes.

Commenting on the principal types of ALMP, the Strategy (p. 31) notes that public works should target the most vulnerable groups and help them gain work experience and training; recruitment subsidies have modest net employment effects due to their inevitable side effects; only a limited proportion of the unemployed have entrepreneurial skills, but self-employment support may nevertheless be the only realistic solution in some cases when large enterprises are restructured; and training schemes should be small-scale and organised in co-operation between employers, the unemployed and specialised institutions (OECD, 2008). Following international evaluation experience and taking note of still limited implementation capacity of the NES, the *Strategy* favours a moderate expansion of carefully targeted programmes.

However, the subsequently adopted operationalizing document, National Employment Action Plan for 2006-2008 (MLSP, 2006) is less concerned over comparative experiences and cost-effectiveness of ALMPs and favours accross-the-board "broadening the scope and types" of ALMPs, with emphasis on more subsidies towards self-employment, job creation and training. Additional programme spending was also envisaged to target the long-term unemployed, unemployed youths and vulnerable groups such as the disabled, Roma and refugees. In a way, the NEAP was a step back in strategic thinking, but has served the practical purpose of making the case before the Ministry of Finance for expansion in spending on ALMPs. Until now, however, Serbia's budgetary situation has prevented any large increase in public spending on ALMPs, which therefore continue to play a rather marginal role compared with the scale of unemployment.

Finally, National Development Strategy 2006-2012 (Government of Serbia, 2006) is a strategic document expected to guide the mature phase of Serbian transition to a market economy, while Serbia also approaches European Union membership. The third chapter of the present study is dedicated to labour market and employment projections and is interesting in shifting the attention from high unemployment rate to low employment rate, the latter being identified as the most dramatic problem of Serbian labour market. Actually, as the most critical for employment generation the authors single out very low level of wage employment in formal private sector, which is the only sub-category of employment in which sustainable employment generation can be expected. Consequently, the Strategy argues for more support to private sector firms, implicitly at the expense of self-employment, since self-employment additional job generation capacity has been assessed as very low. This thinking appears to have been met favourably by policymakers. In the penultimate government change, the Employment Sector was taken away from the Ministry of Labour and Social Affairs and joined the Ministry of Economy, and for the first time programmes administered by the NES and by other government development agencies, such as Republican Development Fund found themselves under the same roof, with more possibility for coordination and simplification of interventions.

Chapter 4. Overview of implemented active labour market programmes 2002 – 2007

4.1. National Employment Service

The National Employment Service (NES) is a public agency under the supervision of Ministry of Economy and Regional Development. NES administers unemployment insurance along with job-brokering and counselling services and other active labour market programmes (ALMPs), mostly regulated in the 2003 Law on Employment and Unemployment Insurance. With 26 main branch offices and at least 130 outlets, the NES has about 2100 staff members, of whom 1100 are counsellors and related professionals in direct contact with clients. The average number of registered unemployed persons per counsellor can be roughly assessed at about 500, or more than twice as high as in most western European countries (OECD, 2008).

In parallel with the start of the overall reform process a thorough organisational and programmatic reform of NES (Bureau for Labour Market as it was officially called at that time) was initiated. However, this initiative coincided with the rapid increase in the number of registered unemployed and even faster growth of benefit claimants, which almost doubled between 2000 and 2003. At the same time, as part of wage taxation reform in 2001 unemployment insurance contribution rate was decreased. This meant that the declared intention to spend relatively more on ALMPs and to make them more efficient was only partially achievable, in terms of efficiency but not in terms of spending.

On the contrary, steep increase in the number of recipients of unemployment benefits coupled with less revenue from unemployment insurance - both processes driven largely by significant drop in formal employment because of restructuring and privatization - brought about rapid worsening of proportion of passive and active labour market programmes in early 2000s. This could be seen in the table 4.1 below – from 2003 onwards spending from NES programmatic budget on unemployment benefits has been on average ten times higher than spending on ALMPs.

Table 4.1. Financial resources dedicated to passive and active labour market programmes, 2000-2007

	Unemployment benefits, average number of beneficiaries	Total costs on UB, in millions of dinars, current prices	Active labour market programmes, mill. Din, current prices	UB as % of programatic spending of NES	ALMP as % of programatic spending of NES
2000	47,393	758	521	59.3	40.7
2001	51,156	2.429	1.057	70.2	29.8
2002	69,566	4.716	1.306	78.3	21.7
2003	90,995	7.891	881	90.0	10.0
2004	76.584	11.404	410	96.5	3.5
2005	63,295	12.639	1.545	89.1	10.9
2006	75,059	15.054	1.540	90.7	9.3
2007	71,334	17.920	2.165	89.2	10.8

Source: Financial reports of National Employment Service, 2000-2007.

The *Change Strategy of the National Employment Service 2006-2008* (NES, 2005) places much emphasis on client-oriented services, but it also calls for better labour market data and analytical labour

market indicators, as necessary precondition for planning and designing programmes, as well as monitoring and process evaluation of NES activities.

Much of the process as described in an internal document of NES (NES, 2003) remained almost unchanged until very recently. The policy creation process begins surprisingly at the bottom, with branch offices and sectors sending their programme suggestions for the forthcoming year. They are debated at the NES directors' collegium, communicated to the responsible ministry, and then reconciled regionally and programmatically within in the meantime externally set budgetary limits. Draft programme is then submitted to the Managing Board of NES (NES, 2003). What is noticeable is the absence or relative passivity of the responsible Ministry in the policy-making process.

However, centralization is very pronounced when it comes to approval and implementation of programmes and disbursement of funds, causing a lot of delays and troubles for the NES and its beneficiaries. This is visible in the wide annual variations in spending on various ALMP types. These variations are not consequences of sudden budgetary cuts or steep increases, but rather of prolonged paralyses in spending, followed often by releases of previously frozen funds alongside with the newly approved.

4.2. Growing diversity of ALMPs 2003-2007

Despite modest available funds, there have been significant dynamism in introducing new types of active labour market programmes during the past five years, especially following the introduction of Law on Employment and Unemployment Insurance in 2003. Another impetus for experimenting with the new programmes, mostly in the form of pilot projects, was coming from international advice, which have been quite intensively offered throughout the period. Because of budgetary constraints, most of new programmes could not afford to be expensive, and are therefore part of career guidance and counselling services.

On a less positive note, however, the overall number of programmes at any point in time seems to be very high relative to both staff capacities and available funds of the NES. In addition, programme volatility is rather high and average programme duration seems to be rather short. Some of ALMPs were discontinued after short existence, only to be replaced with very similar programmes. These features will be explained in more detail and illustrated in the sections below describing ALMPs by their three major categories – *job brokering*, *training* and *job subsidies*. The detailed list of programmes with their coverage and costs can be found in Annex A2.

Career guidance and counselling programmes

It should be noted that financial amount spent on *career guidance* and *job brokering* ALMPs and consequently its share in the total ALMP costs are significantly underestimated, since expenses on these programmes are mostly covered from operational costs of NES, which are not ascribed to this group of measures. This could in theory be done for example by adding the salaries and related costs of the staff dealing with career guidance and counselling to overall costs of this group of programmes. But even in that case, the conclusion of very small costs per beneficiary will hold.

Another positive feature of *career guidance* and *job brokering programmes* is that they are not overdiversified, and that they live longer than other programmes – none of the 9 programmes was discontinued between 2002 and 2007. There were two waves of innovations within this category of programmes – first happenned at the beginning of the period, in 2002/2003, with the introduction of active job seeking training, job fairs and job clubs. Second and surely more fundamental innovation happened in 2005, with the introduction of mass programmes of group information and especially that of employability assessment and individual employment plans. Thanks to these two measures the total

number of beneficiaries in this category of ALMPs increased several times (between 2005 and 2007), as well as their share in the total number of ALMP beneficiaries.

Training programmes

Unlike with the other two ALMP types, training programmes have not changed much during the 2002-2007 period. They have been rather stagnant both in terms of design and of coverage. Annual coverage of 10,000 – 20,000 beneficiaries seem to be quite modest compared with more than a third of registered unemployed with only basic education or less. However, the way they are designed and implemented now, Additional Education and Training programmes cater mostly for better educated young people. This has also been noted by a recent OECD survey (OECD, 2008).

Among the two-subcategories, Vocational Education, catering mostly for first-job seekers with secondary education or higher, by subsidizing employers to facilitate their job entries, has always been dominant compared with Trainings. Furthermore, within the Trainings sub-category general classroom type trainings (computer courses, languages and the like) have been much more prevalent than on the job training or other more intensive forms of training aimed at building of specific vocational skills.

Innovative programmes have had insignificant coverage and impact and some of them are already discontinued. Innovative programmes include Functional basic education of adults introduced in 2004; On-the-job training introduced in 2004; and Virtual enterprises introduced in 2005.

It should also be noted that Additional Education and Training programmes are not run as a separate sector but are lumped together with Career Guidance and Counselling programmes. Our recommendation is that this should be changed, and much more attention devoted to careful re-design of the entire programmatic area, with the shift of emphasis from classroom training to on-the-job training (so called programmes 'for known employer'), and from better educated to less educated long-term or otherwise vulnerable unemployed persons.

Job subsidy programmes

Job subsidy programmes are always the programmes with highest costs per beneficiary, and therefore special attention should be paid to their design and implementation rules. They have recorded significant and almost uninterupted expansion between 2002 and 2007, not only in terms of beneficiaries and in terms of available financial resources, but also in terms of design. Apart from two core programmes that existed throughout the period - self-employment grants and subsidies for newly created jobs for employers - two new core types were introduced more recently. First is the programme of social security contribution subsidies and wage tax relief for employers employing especially vulnerable categories of workers was introduced in 2004 and widely broadened in 2006. Second is the programme of public works, introduced in 2006 and much expanded in 2007.

Despite this favourable overall picture, there have been many problems related to the design and implementation of self-employment and regional (employer-subsidy) programmes. For example, programme of job subsidies for new employment was in 2004 replaced with regional programme of job subsidies. Apparently, the change was made in order to better target underdeveloped regions with above-average unemployment rate. However, in practice, regional distribution of new programe participants was quite even-handed, with Belgrade (capital city with the lowest unemployment rate) taking up significant portion of programme funds aimed at supporting wage employment in underdeveloped regions. As a curiosity, recent client satisfaction survey (Medium Gallup, 2007) actually reveals that client employers from Belgrade show the highest level of enthusiasm for participation in Regional employment programme.

Regional programme was however discontinued early in 2008 and replaced by the New Employment Subsidy Scheme, which provides regionally-differentiated but otherwise universally accessible wage subsidies for newly created jobs. According to the scheme, job subsidies are highest in the least developed regions and lowest in Belgrade and other big cities. The decision was based on internal and external assessments undertaken at the request of the Ministry of Economy and Regional Development with the aim to consolidate employment promotion schemes under the remit of the Ministry, which also include subsidized loans and start-up grants handled by institutions other than NES, such as Republican Development Fund and SME Agency.

It is interesting to have a closer look at the development of financing and coverage of two most representative job subsidy forms – *self-employment subsidies* and *regional programmes*. After a rather moderate share of around 10% of the total ALMP budget, in 2004 and 2005, self-employment subsidies expenditures and coverage jumped and they were taking more than a half of the total ALMP budget. They remained dominant in 2006, but with the declining expenditure share (26% in 2007). On the other hand, regional programmes were almost unnoticeable in 2004, and then increased their share in total ALMP expenditures to 15% in 2006 and 2007.

4.3. Evolution of financial resources and beneficiary coverage of ALMPs - planned and realized

In order to assess the ALMP implementation process we have looked at the following annual NES documents in the 2002-2007 period: financial plans, financial reports, work programmes and operational reports.

Our process assessment analysis in this section is based on comparison between the planned and actually disbursed financial resources allocated into three main categories of ALMPs, on the one hand, and on comparison between the planned and actually covered number of beneficiaries falling into one of the three main categories of ALMP, on the other hand. Note that because of relatively high level of aggregation we have underestimated full scope of financial and coverage under- or over-achievement by individual programmes.

As is visible from Table 4.2 above, 2004 was the worst year, with financial realization of less than 50% of available resources. 2003 was slightly better with financial realization of some 78% of the plan. Coincidentally, during these two years unemployment rate (either as measured by LFS or administratively expressed) recorded the steepest increase in the entire period under our consideration.

Apart from 2002, in which actual financial realization surpassed the planned by 68%, two other years in which more money was spent on ALMPs than initally planned were 2005 and 2006. This reveals interesting, but not quite unexpected pattern – in every year in which there were no elections or major political crisis, more money was spent on ALMPs than originally planned. Conversely, in each year which witnessed elections and/or major political crisis, that is in 2003, 2004 and 2007, actual financial realization was below planned. In 2007, for example, actual spending on most expensive job subsidy programmes started only in September, only after the new Government was formed.

Table 4.2. Planned and disbursed financial resources on ALMPs by main types, 2002-2007, in current dinars

		Total	*Career guidance and counselling*	*Additional education and training*	*Job subsidies*
2002	Planned	820.200.000	51.000.000	209.200.000	452.000.000
	Realized	1.306.527.694	1.622.596	1.004.087.753	220.041.572
	Realized in % of planned	1,68	0,03	4,80	0,49
2003	Planned	1.125.664.600	24.020.400	656.983.140	345.261.060
	Realized	880.784.869	8.787.715	516.807.586	253.616.610
	Realized in % of planned	0,78	0,36	0,79	0,72
2004	Planned	900.000.000	30.330.000	300.000.000	569.670.000
	Realized	410.113.996	1.150.575	76.457.538	332.505.884
	Realized in % of planned	0,46	0,04	0,25	0,58
2005	Planned	825.000.000	10.687.875	363.265.020	438.800.000
	Realized	1.617.710.829	2.840.891	418.669.132	1.196.200.806
	Realized in % of planned	1,96	0,26	1,15	2,72
2006	Planned	1.375.000.000	5.180.000	400.000.000	969.820.000
	Realized	1.720.792.502	6.016.820	533.759.306	1.181.016.377
	Realized in % of planned	1,25	1,16	1,33	1,22
2007	Planned	2.721.396.950	9.600.000	738.480.000	1.973.316.950
	Realized	2.641.145.092	6.962.009	738.248.658	1.895.934.425
	Realized in % of planned	0,97	0,72	1,00	0,96

Source: NES.

Table 4.3. Planned and realized beneficiary coverage by main types of ALMPs, 2002-2007

		Total	*Career guidance and counselling*	*Additional education and training*	*Job subsidies*
2002	Planned	81.600	60.200	13.300	8.100
	Covered persons	78.975	65.989	7.892	4.607
	Covered in % of planned	0,97	1,10	0,59	0,57
2003	Planned	165.135	134.030	20.079	11.026
	Covered persons	119.931	96.631	10.779	10.262
	Covered in % of planned	0,73	0,72	0,54	0,93
2004	Planned	110.296	89.701	11.095	9.500
	Covered persons	101.006	78.935	4.086	18.585
	Covered in % of planned	0,92	0,88	0,37	1,96
2005	Planned	130.793	96.782	8.261	25.750
	Covered persons	181.068	138.016	11.325	31.727
	Covered in % of planned	1,39	1,43	1,37	1,24
2006	Planned	866.784	822.500	12.834	31.450
	Covered persons	675.523	625.233	11.794	38.496
	Covered in % of planned	0,78	0,76	0,92	1,23
2007	Planned	689.170	644.270	13.500	31.400
	Covered persons	831.597	760.875	14.551	56.171
	Covered in % of planned	1,21	1,18	1,08	1,79

Source: NES.

Although there is some correlation between the ratio of realized to planned beneficiaries and the ratio between realized and planned financial resources for ALMP, it is not very strong, because of the dominant and ever growing beneficiary participation in Career guidance and counselling programmes, which are at the same time by far the cheapest programmes (Table 4.3). In the last two years (2006 and 2007) almost every unemployed person was covered by at least one programme belonging to this category. It is also interesting to note that Training programmes most often record significant under-achievements, and that absolute number of their participants stagnates within the rather narrow 10-20,000 range, while Job subsidy programmes record significant increase each year, from less than 5,000 in 2002 to over 65,000 in 2007.

4.4. Process assessment of implementation of active labour market policy through active labour market programmes

As is visible from Table 4.4 below active labour market programmes have operated on a very tight budget throughout the 2002-2007 period. Their share in GDP have varied between 0.03% in 2004 and 0.11% of GDP in 2007. On a positive note, a stable growing trend of that share has been recorded in most recent years, from 0.06% of GDP in 2005 through 0.08% in 2006 to 0.11% in 2007.

Table 4.4. Share of ALMPs in GDP and ALMP spending by main programme types, 2002-2007

		Total	*Career guidance and counselling*	*Additional education and training*	*Job subsidies*
2002	Total spending, mill.din.	1.306,5	1,6	1.004,0	220,0
	Structure of spending, %	100,0	0,12	76,85	16,84
	Spending in % of GDP	0,128	0,000	0,098	0,022
2003	Total spending, mill.din.	880,7	8,8	516,8	253,6
	Structure of spending, %	100,0	1,0	58,68	28,79
	Spending in % of GDP	0,075	0,001	0,044	0,022
2004	Total spending, mill.din.	410,1	1,2	76,5	332,5
	Structure of spending, %	100	0,3	18,6	81,1
	Spending in % of GDP	0,03	0,00	0,01	0,02
2005	Total spending, mill.din.	1.617,7	2,8	418,7	1.196
	Structure of spending, %	100,0	0,18	25,88	73,94
	Spending in % of GDP	0,06	0,00	0,02	0,04
2006	Total spending, mill.din.	1.721	6	534	1.181
	Structure of spending, %	100,0	0,3	31,0	68,6
	Spending in % of GDP	0,08	0,00	0,03	0,06
2007	Total spending, mill.din.	2.641	7	738	1.896
	Structure of spending, %	100,0	0,3	28,0	71,8
	Spending in % of GDP	0,11	0,00	0,03	0,08

Source: NES.

It should be noted at this point that the presented numbers represent an underestimation of the true costs of ALMP interventions, because they do not include operational costs of NES, which were in most years roughly equal to total ALMP expenditures. It could be rightly assumed that more than a half of operational costs belong to staff hours and material expenses related to ALMP implementation, and among them especially to the category of Career guidance and counselling, which is in official financial reports presented as almost costless. However, we do not have a mechanism to discern which part of operational costs of NES belongs to which type of labour market policy. Still, we can safely say that the

percentages presented in the above table represent a lower bound of true expenditures, while the upper bound would be the total of ALMP expenditures and operational costs in full.

A closer look at the dynamics and structure of spending by only basic programme categories (not to mention individual programmes) - shows high volatility from year to year within and between programme categories. These variations have largely been unintended consequences of political stalemates rather than carefully planned outcomes.

Apart from approval from Managing Board, which can frequently become paralized not only in the between-governments periods, any new call for participation in ALMPs requires Ministry's direct approval. Further delays can occur in the disbursement of funds from NES directorate to branch offices. In addition, most programmes are not permanently offered (with automatic periodic assessment of applications), but depend on specific calls which can be prolonged for all the above mentioned reasons. This can explain huge oscilations in spending on ALMPs in general and by types from year to year, and spending and coverage way below plan in some years – not that the funds were unavailable, but it was impossible to spend them on time because of all these limitations.

More recently, for some important programmes such as *self-employment* and *new employment subsidies* a simple remedy has been found in the removal of unnecessary 'veto points' within the Ministry or NES Managing Board and in the abandonment of specially designed subsidy 'campaigns', followed by specially designed public calls. Instead, applications are accepted around the year, and grant giving decisions are made in automatic, regular intervals.

During most of the 2002-2007 period, a rather unfortunate combination of policy creation and implementation has probably seriously hampered process implementation. Risking over-stylization and over-generalization, it could be said that that mix consisted of policy creation largely based on inertia and fragmented bottom-up approach and of programme implementation based on almost absolute centralization within NES, causing delays and under-realization of planned activities even when the financial resources were not an issue. Exactly the opposite mix – policy creation designed primarily in the center based on full aknowledgment of local specifics, and policy implementation largely decentralized, would have had resulted in smoother implementation and more efficient active labour market programmes.

Chapter 5. Impact evaluation of implemented programmes

5.1. Indicative impact assessment

Indicative impact assesment of implemented ALMP, as explained in the methodology section, is based on comparison between the level and dynamics of a certain ALMP (or group of ALMPs) and the relative position and dynamics of labour market situation of a population group at which this particular ALMP intervention was targeted. In other words, we will try to track changes of the financial resources (in absolute and relative terms) spent on specific measure and number of included beneficiaries between 2002 and 2007 and changes in the labour market indicator of the specific group assumed to be affected by that measure. In addition, information of the share of persons employed six months after the program, as reported by the NES, will be used to assess the possible impact of the intervention on employment, although these data are available only for 2006 and 2007.

However, it is worth emphasizing that the number of beneficiaries of some programmes is rather small as compared to the reference population targeted by the program. For example, if the number of beneficiaries of one programme represents less than 1% of the targeted population, the impact of this programme is difficult to observe. The same conclusion holds if the reference population is small, such as the persons with disabilities in 2002 LSMS.

In most cases the analysis is focused on a specific programme within the OECD classification of ALMP for which the data for measuring relative labour market position of the beneficiaries are available. List of indicators that will be used for indicative impact assessment of a specific programme are given in Table 5.1. Based on a separate analysis of specific measures, we will try to make an overall impact assessment for three major programmes: career guidance and counselling, additional education and training and development of entrepreneurship.

Table 5.1. Indicators for evaluation of the impact of implemented active programmes

Programme	Definition of impact (Indicative, partial)[4]	Source
Career guidance and counselling, including: Group information Information on career development possibilities Employability assessment and individual employment plans Counselling Selection and classification Employment fairs Active job seeking measures	Gross number of job placements via NES, Registered number of unemployed	NES 2002-2007
Programmes of additional education and training		
Functional primary education of adults		
Apprentices and volonteers	Number and % in total unemployment of first-time job seekers with secondary school or more Youth unemployment rate	LSMS 2002-2007 LFS 2004–2007 NES 2002-2007

[4] Sometimes could be treated as a suggestion for process evaluation

	Youth employment rate	
Co-financing of graduate students		
Training	Number and % in total unemployment of persons with less than secondary education	LSMS 2002-2007 LFS 2004-2007 NES 2002-2007
Development of entrepreneurship and subsidised employment programmes		
Information, advisory and educational services in businesss centers	Difference in survival rates of treated and untreated beneficiaries of self-employment grants	NES (data not available)
One-day training		
Three-day training		
Self-employment subsidies (including One-off payment of unemployment benefit for self-employment)	Number of non-farm self-employed and share of non-farm self-employment in total employment	RAD 2002-2007 LSMS 2002-2007 LFS 2004-2007
Regional programmes of subsidized wage employment	Number of wage employees and share of wage employees in total (non-farm) employment	As above
Subsidies for employment of refugees and displaced persons and Roma	Employed and unemployed refugees, IDP, Roma and corresponding employment (E) and unemployment (U) rates	Data not available
New employment for persons with disabilities	Employed and unemployed persons with disabilities and corresponding E and U rates	NES 2002-2007
Subsidies for equipment of the workplace		
Wage subsidies		
Social security contribution subsidies		
Other measures		
Subsidies of social security contributions		
Subsidies of SSC for persons older than 45-50 years	Employed and unemployed persons older than 45/50 and corresponding E and U rates	LFS 2004-2007
Subsidies of SSC for persons younger than 30 years	Employed and unemployed persons younger than 30 and corresponding E and U rates	LFS 2006-2007
Subsidy of SSC for trainees below 30 years	Number and % in total unemployment of first-time job seekers under 30 and E and U rates for persons under 30	LFS 2006-2007
Subsidy of SSC for persons with disability	Employed and unemployed persons with disabilities and corresponding E and U rates	NES 2006-2007
Public works	Long term unemployment rate	LFS 2004-2007
Severance to Job project	Number and share in total unemployed of persons who lost their jobs because of restructuring	LFS 2007-2008

The anticipated impact of Career guidance and counselling is expected to be all-encompassing for the entire category of registered unemployed – the more intensive various job brokering activities, the more placements will occur and consequently less unemployment will be recorded by the NES. Even much

more expensive programmes, such as job subsidies or trainings, will be positively affected by the more intensive guidance and counselling, since their initial screening should assist in matching beneficiaries with the right high-cost programmes for them.

One of the problems of indicative assessment of this type of ALMP intervention lies in the fact that costs attributed to it are artificially low, since salaries of the counsellors and other related staff costs are not accounted for. Still, if use reported costs as one proxy, and the number of total NES staff as another (implicitly assuming that the share of counsellors to total staff is stable over time), we will get an idea on the level and dynamics of indicative inputs. Similarly, as proxies for indicative outputs, we have chosen the gross number of placements via NES (more direct impact) and the number of registered unemployed (overall impact, more strongly blurred by other factors). Of course, the expected direction of impact of increased indicative inputs on placements is positive and on unemployment is negative.

Table 5.2. Costs on Career guidance and counselling (CGC), total NES staff, gross number of placements and registered unemployed, 2002-2007

	Total NES costs on CGC, thousands din.	NES total staff	NES operational costs, thousands din.	Gross number of placements via NES	Number of registered unemployed
	Indicative inputs			Indicative outputs	
2002	1,623	1,612	784,004	237,110	904,494
2003	8,788	1,783	925,059	238,020	944,939
2004	1,151	1,863	1,182,203	221,156	859,728
2005	2,841	1,780	1,645,497	242,627	895,697
2006	6,017	1,916	1,963,639	291,774	914,564
2007	6,962	2,008	2,586,622	314,847	785,099

Source: NES.

While the gross number of placements was rather stagnant between 2002 and 2005, it recorded steep rise in 2006 and 2007 (Table 5.2). This coincided not only with a more dynamic rise in the number of counsellors (estimated at 1,100 in 2007) and steeper increases in NES operational costs and total costs dedicated to Career guidance and counselling, but also with the introduction of two new mass programmes in 2005, which multiplied the number of beneficiaries of Career guidance and counselling programmes, as described in Chapter 4.

Comparing the dynamics of indicative inputs and outputs as presented in Table 5.2 above, we can identify 2006 as a turning point. The increase in the size (measured by total direct and operational costs) and quality and intensity of Career guidance and counselling intervention (as a consequence of introduction of two new mass programmes in 2005) have likely had rather strong positive impact on the increased number of total job placements by the NES in 2006 and 2007 and may have also contributed to some extent to the decrease in number of registered unemployed between 2006 and 2007 (Table 5.4 in the Annex 1).
Within the programmes of additional education and training, the most financial resources are spent on additional education of apprentices and volunteers, while training programmes covered the largest number of persons. Therefore, our indicative impact assessment is focused on these two programmes.

Financial resources spent on additional education of apprentices and volunteers (apprentices, apprentices-volunteers and volunteers-practitioners) declined by almost 50%, while the number of beneficiaries increased almost 10 times between 2002 and 2007 (Table A2 in the Annex). The relative importance of this programme in terms of financial resources was quite significant in 2002, as 70% of all

financial resources were allocated to this programme. In 2007, the share of financial costs declined to 17%, while the share of persons covered by this programme remained stable over 2002-2007 (1%).

As beneficiaries of this programme are young people, first-job seekers, with at least secondary school, indicators used to analyse the indicative impact of this measure on the labour market position of these groups are: specific indicators such as a) the number of first time-job seekers with at least secondary school and its share in total unemployment, as well as b) summary indicators such as youth employment and unemployment rates.

The number of first-job seekers with at least secondary school declined by 4.4% over 2002-2007 using the LSMS data, and their share in total employment declined from 42.2% to 35.5% over 2002-2007 (Table 5.3 in the Annex). The LFS data also shows reduced number of first-job seekers with at least secondary school in last two years (by 20%) and their share in total unemployment (from 32.8% in 2006 to 30.9% in 2007).[5] The gross impact statistics of the programme on employment (Table 5.8 in the Annex) shows that around half of the participants have held a job 6 months after the programme in 2006, while in 2007 the impact is measured only for overall programmes of additional education and training (31%). Finally, the summary indicators for the youth show somewhat mixed picture as *employment rate* of those aged 15-29 years (and 15-24) declined using both the LSMS and the LFS data, while their *unemployment rate* either remained unchanged over 2002-2007 according to the LSMS or declined over 2004-2007 according to LFS data. Although we cannot isolate other factors that may have affected above labour market indicators, we can conclude that programmes of additional training of apprentices and volunteers may have had some positive impact on their labour market position influencing the decline in unemployment of young, better educated, first-job seekers.

The relative importance of training programmes increased when measured by the share of financial resources allocated to this measure (from 2.3% in 2002 to 9.5% in 2007), but it declined when measured by the share of persons covered by this programme (from 8% in 2002 to 1% in 2007). In absolute terms, while spending for training programmes increased over 8 times, the number of beneficiaries increased by 5.2% (Table A2 in the Annex 1). Among participants of the program, 26% have been employed 6 months after the programme in 2006 (Table 5.8 in the Annex 1) and 31% in 2007 (for the overall additional education and training programmes). The corresponding labour market indicator that may capture the impact of this programme is the number of unemployed with less than secondary education and its share in total unemployment.

The number of unemployed with less than secondary education increased by 16.4% over 2002-2007 according to the LSMS data, while it declined between 2004 and 2007 by 13.7% according to the LFS data. However, both data sources show relatively stable share of this group of unemployed people in total unemployment. In addition, the NES data on registered unemployed indicates a declining trend of the number of unemployed without qualifications and of its share in total unemployed over 2002-2007 (Table 5.5 in the Annex 1). However, as already noted in the previous chapter, it appears that according to the current design and way of implementation, training programmes targeted mostly better educated young people (OECD, 2008). Thus, we can conclude that it appears that training programmes may have had weak positive impact at least on the general population of registered unemployed persons, but that their impact on registered low-skill unemployed has been practically non-existent.

Within the programmes of entrepreneurship development and subsidised employment programmes**,** the two most important programmes in terms of the financial costs and number of included persons are: self-employment subsidies (including one-off payment of unemployment benefit for self-employed) and regional programmes for subsidized wage employment.

[5] In addition, the NES data on registered unemployed shows declining number of the unemployed youth (15-30) and their share in total unemployment over 2002-2007 (Table 6.6).

Financial costs for self-employment subsidies programme (including one-off payment of unemployment benefit for self-employed) and the number of persons included in this programme increased over 4 times between 2002 and 2007. In 2002, 12% of all spending was allocated to this program, while 27% in 2007. The impact of this programme on the employability of participants is measured by the changes in the number of formal non-farm self-employment and its share in total (non-farm) employment. We use only data on formal employment as beneficiaries should be only formally self-employed. Both survey data sources (LSMS and LFS) indicate the decline in the number of formal non-farm self-employed. However, the LSMS data suggests much larger decline in the formal non-farm self-employment than the LFS.[6] In contrast, the administrative data shows that non-farm self-employment significantly increased which could be possibly explained by the fact that not all of them belong to the category of formal employment as defined in the LSMS or LFS (see notes to Table 5.3 in the Annex). Although this programme recorded significant increase in the number of beneficiaries, it is difficult to say, based on these data, what is its impact on changes in formal self-employment. However, the discrepancy between quite stagnant formal self-employment data levels and trends according to LSMS and (conditionally) LFS, on one side, and more dynamic administrative self-employment RAD-data, on the other, would indicate that the RAD data over-estimate the 'true' numbers, perhaps reflecting practices to keep inactive micro firms and self-proprietorships on official records.

Similarly to self-employment subsidies, financial resources and the number of beneficiaries of regional programmes for subsidized wage employment increased around 3 and 4 times respectively, while the number of formal non-farm wage employees declined according to data from both surveys (by 9% over 2002-2007 in the LSMS, by 3% over 2004-2007 in the LFS) and according to administrative data (by 4% over 2002-2007).

Within other measures, the relative importance of the programme of new employment of disabled persons (subsidies for equipment of the workplace, wage subsidies, social security contribution subsidies) was relatively small in terms of the financial costs and number of included persons. The share of financial costs in total costs was less than 1% in 2002 and 4% in 2007, while the number of beneficiaries was 100 persons in 2002 (0.1%) and 772 persons in 2007 (0.1%). Although financial costs and number of beneficiaries increased significantly between 2002 and 2007 (6 times and 4 times respectively), the number of NES registered unemployed persons with disabilities increased by 20% over 2002-2007. However, if they came to unemployment from inactivity, this would not be a negative development. As there is no other data on persons with disabilities and due to a small coverage of these persons, the impact of this measure is difficult to estimate.

Programme of subsidies of social security contributions for persons older than 45 or 50 years of age was in effect from September 2004, while programme of subsidies of social security contributions for persons younger than 30 years of age, trainees below 30 years of age and persons with disabilities started to be implemented in September 2006. Financial costs of all programmes of subsidies of social security contributions increased around 5 times, while the number of beneficiaries increased 3 times between 2006 and 2007. All beneficiaries have been employed 6 months after the registration for social security contributions subsidies in 2006 and 2007 (4,395 persons and 13,625 persons respectively), which reflects specific requirements of programme design and could not be used as an indicator of programme gross impact[7].

Still, the dynamics of labour market indicators for specific groups targeted by the programme was rather different. As regards persons over 45 years old, although the number of wage employees slightly increased (by 2%) over 2004-2007, the employment rate of this age group declined by 4 percentage

[6] This is because informality increased among non-farm self-employed (see Chapter 2), which can be much better captured in the LSMS than in the LFS. The LFS data do not have enough information for distinguishing formal from the informal employment.

[7] It will be possible only some time after the end of intervention, which should last two or three years. For example, for those workers who started to receive the two-year subsidy in late 2006, the 6-month-after assessment rule would require inquiring about their labour market status not before early 2009.

points. The number of unemployed over 45 years of age increased (by 8%), as well as their unemployment rate.

Employment of the youth (under 30) was relatively stable as well as their unemployment rate between 2006 and 2007. However, the number of unemployed youth declined significantly (by 20%) and the unemployment rate as well (by 3.5 percentage points).

Labour market indicators for trainees below 30 years show improved position of this group in the labour market. Number of first-job seekers below 30 years declined considerably between 2006 and 2007 (by 21%) and their share in total unemployment declined from 29% to 27.2%. In addition, as already pointed out, the unemployment of youth decreased as well. Although other factors may have also contributed to the improved position of this group (i.e. additional education programmes), we can conclude that the programme of subsidies of social security contributions for trainees below 30 years may have had positive effect on employment of young trainees.

As regards persons with disability, the coverage of this programme was rather small (only 23 persons and 69 persons were included in 2006 and 2007 respectively) that the effect of this measure can be estimated.

Although some positive gross effects of these programmes of subsidies of social security contributions are evident, as 4,395 persons were employed in 2006 and another 13,625 persons were employed in 2007, net effect on employment may be rather small due to significant 'deadweight' effects (subsidies to recruitments that would have happend anyway). The 'deadweight' effect will be much lesser with regards to unemployed persons over 45 years of age and persons with disabilities, as these two categories are in a more disadvantaged position in the labour market than young unemployed persons.

The programme of public works was introduced in 2006 and it is focused mainly on the most disadvantaged unemployed groups, such as the long-term unemployed. Although the importance of this programme increased in 2007, both in terms of financial resources and number of participants, gross placement rates declined from 100% in 2006 to only 1.4% in 2007, showing that after the expiration of temporary employment in public works, only a marginal percentage of these workers find another job in 2007. In addition, the long-term unemployment share, as an ultimate indicative outcome indicator, was stable over the period of implementation (80.6% in 2006 and 81.2% in 2007) indicating that such programmes cannot solve a large-scale unemployment problem of long duration.
The employment effect of „severance to job project" is still unknown as it is introduced in 2007. Given its small scale, most likely this effect would not be significant.

5.2. Cost effectiveness and gross effects of individual ALMPs on employment creation

Cost effectivness of the active labour market programmes will be analysed using the two measures: a) spending per participants and b) spending per employed persons (persons who found a job six months after having participated in the program). Gross effects of the programmes on employment, as already noted in the previous section, will be measured by number and percent of persons employed 6 months after the participation in the program.

The costs of ALMP (per participant and per employed), presented in Table 5.7 in Annex 1, appear to be underestimated (particularly for category of Career guidance and counselling), as noted in Chapter 4, because the operational costs of the NES are not included, which were in most years roughly equal to total ALMP expenditures.

Career guidance and counselling programmes appear to be by far the most cost effective programmes. Spending per participant and per employed was the smallest compared to other two main programmes over the whole period considered (2002-2007). Cost effectiveness of these programmes even increased, from 25 dinars per participant spent in 2002 to 9 dinars spent in 2007 (Table 5.7). Spending per employed declined as well, amounting to 137 dinars in 2006 and 99 dinars in 2007. Among all participants employed 6 months after the program, participants of career guidance and counselling programmes comprised 66% and 70% of all employed. A total of 70,128 people entered employment in 2007, which is 1.6 times higher in comparisons to 2006 (Table 6.8). Gross effects on employment creation slightly increased, from 7% in 2006 to 9.2% in 2007. The most successful among career guidance and counselling programmes is programme of individual employment plans, which was implemented for the first time in 2006 by the NES mainly with newly registered job-seekers. More than half of newly registered unemployed have undergone the programme. The data on impact of the individual employment plan programme estimate gross placement rates varying from 14 to 16 per cent between 2006 and 2007.

Among two other main programmes, spending per participant and per employed appear moderate for job subsidies, while it is much higher for additional education and training programmes during the whole period considered.

Spending per participant for additional education and training programmes significantly declined between 2002 and 2007, from 126,724 dinars to 50,735 dinars. However, in the last two years, this trend reversed as spending per participant increased by 12%, while spending per employed increased even more, by 27%. These data suggest that these programmes became less cost-effective. The most expensive programme in 2006 and 2007 was co-financing of graduate students (270,498 dinars per participant in 2006 and 168,103 dinars per participant in 2007). A total of 4,173 participants of additional education and training programmes entered employment in 2006 and 4,552 participants in 2007, which is relatively small number as compared to overall participants employed 6 months after the program. Gross effects on employment creation was significant, as around third of participants found a job in 2006 and in 2007, but it should be emphazised that not many people participated in these programmes.

As regards job subsidies programmes, spending per participant declined over 2002-2007. However, in the last two years, cost-effectiveness of these programmes decreased, as spending per participant and per employed was higher by 10% and 18% respectively in 2007 compared to 2006. The most expensive programme was subsidies for self-employment with spending per participant of 129,826 dinars in 2007 and per employed person of 119,043 dinars. The indicator of gross effects on employment for these programmes has quite different meaning, as it is influenced by the character of the program. It measures the percent of subsidized self-employed who remained in their jobs 6 months after obtaining this subsidy from the NES. As most of them remained employed, the impact on employment is rather high amounting to 49% in 2006 and 45% in 2007. According to the Medium Gallup survey of

beneficiaries of self-employment subsidies conducted in 2007, around 84% of the enteprises opened with the NES subsidy assistance are still active (Medium Gallup, 2007).

Other programmes appear to be quite expensive, mainly due to one-off payment of unemployment benefit for self-employed with spending per participant and per employed amounting to 192,064 dinars in 2006 and 216,324 dinars in 2007.

Chapter 6. Conclusions and policy recommendations

Conclusions

Employment policy was not given enough attention in Serbia in the period 2000-2007, both in terms of conceptualization (as it was considered to be only subsidiary or even exogenous to the core reform agenda) and in terms of resources, especially in its segment which is the primary focus of our attention, that is, active labour market policy. This strategic and policy neglect during the process of economic transition probably caused significant worsening of the labour market situation that was deeper and lasted longer than necessary.

Labour market situation is very unfavourable. Unemployment rate is high by any measure, and even more worrisome, employment rate is quite low. Private sector wage employment, which should be the main engine of sustainable employment growth in the future, comprises less than 1,000,000 persons compared to the working age population of more than 5,000,000. It failed to absorb the labour shed by the restructuring and privatisation processes on the one hand, and to generate enough jobs for youth queuing in the labour market, on the other. Employment in the informal economy remains pervasive, accounting for over a third of total employment and increasingly absorbing unqualified and unskilled labour.

Expenditures for active labour market programmes were on average only 0.1% of GDP. This is comparatively very low and these limited resources, even in the case of their optimal use and maximum impact, could not fundamentally change the general labour outcomes.

However, the use of resources for ALMPs was significantly less than optimal. We have identified several main reasons for this conclusion.

First, the political cycle. Under-achievements in the use of allocated resources and beneficiary coverage occurred in every year marked by administrative changes at the levels of ministry in charge of ALMP or National Employment Service. Managerial over-centralization of responsibilities contributed to occasional harmful administrative paralyses in implementation of the programmes.

Second, weaknesses in policy creation, programme mix and labour market informational base. To start with, the PRSP did not provide a fully consistent and operational policy framework. ALMP policy and programme mix were, especially in the first several years of transition, based more on inertia and ad-hoc assessment of relative importance of potential targets for intervention, than on a thorough assessment of overall labour market situation and consequent identification of adequate and balanced programme mix. Furthermore, there was a tendency for proliferation of various programmes, thus on average programmes tended to be short-lived.
Third, weaknesses in programme design and monitoring. Due to limited capacity of NES, especially very high number of unemployed per staff member and administrative overload, most programmes requiring intensive screening, monitoring and process evaluation, could not get the optimal attention, which increased the likelihood of occurrence of well known negative ALMP effects, such as deadweight, substitution and replacement.

Still, both programme mix and programme design have gradually improved over time. NES has gradually built its capacity and is now far better equipped and staffed to implement still diverse but more consistent set of ALMPs.
Despite the generally modest expectations from ALMPs to be able to fundamentally improve overall labour market indicators, our indicative impact assessment analysis has provided some hints that it has actually been the case with the programme category of Career guidance and counselling. The expansion of these programmes after 2005 has coincided with much larger number of annual gross placements and with significant drop in registered unemployment. Career guidance and counselling

appear to be by far the most cost effective programmes measured by spending per participant and by spending per employed persons.

Elsewhere, our indicative impact assessment finds that the impact of programme categories or individual programmes may have been short-lived and limited to relative position of the groups targeted by them. Thus, additional education and trainee programmes may have assisted educated young first-job seekers to further improve their relative position on the market. Self-employment programmes and programmes of wage subsidies for employers (regional programmes) could not prevent formal self-employment and wage employment from sinking. In both cases, some other forces were apparently much stronger than corresponding ALMPs. Finally, first assessments of relatively new public works programme show that the temporary employment provided by public works does not improve the chances of beneficiaries to find another job.

Recommendations

Employment policy needs to be given a more prominent place and become fully integrated within the overall economic development strategy and policy. Special attention should be given to policies, programmes and measures promoting private sector wage employment.

New Law on Employment and Insurance in Case of Unemployment needs to be passed in order to introduce annual policy planning cycle centred around National Employment Action Plan (NEAP), more flexibility in programme creation, and more incentives for activation of the unemployed and inactive persons.
Active labour market policy mix needs to be designed and coordinated within a consistent strategic framework periodically adjusted by more flexible medium-term action plans. The NEAP should represent the backbone of annual ALMP planning cycle. ALMP design needs to be responsive to closely monitored and regularly analyzed overall and structural labour market trends. Analytical and policy design capacities of responsible Ministry and especially Employment Sector, need to be further upgraded.
Decentralization and client orientation of NES need to be further strengthened.
Implementation of ALMPs needs to be made independent of political cycles in order to avoid politically induced delays in programme implementation.

In order to really make some impact and to get closer to European benchmarks, share of ALMP in GDP needs to be doubled in the next two years, and then gradually increased to some 0.4% of GDP by 2014.

Career guidance and counselling category of ALMPs needs to be further expanded, since they appear to be the most efficient programmes.

Training programmes need to shift their attention from well educated first-job seeking youth to low-skill long term unemployed, and from classroom to on-the-job programmes. Training programmes deserve a separate sector within the NES.

Job subsidy programmes should primarily support the recovery of private sector wage employment.

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Annex 1: TABLE SUMMARY

Table A1. Main labour indicators according to the LFS data, 2002-2007
(population 15-64)

	Employed, thousands	Unemployed, thousands	Labour force participation, %	Employment rate, %	Unemployment rate, %
2002*	3000	460	56.1	48.6	13.3
2003*	2919	500	55.7	47.6	14.6
2004	2931	665	66.4	53.4	19.5
2005	2574	719	65.2	51.0	21.8
2006	2517	692	63.6	49.8	21.6
2007	2526	584	63.4	51.5	18.8

Note: *Data for 2002 and 2003 refer to population over 15.

Source: LFS 2002-2007.

Table A2. Realized spending and individuals covered by type of programme, 2002-2005

	2002		2003		2004		2005	
Programmes and measures	Realized spending, dinars	Individuals covered	Realized spending, dinars	Individuals covered	Realized spending, dinars	Individuals covered	Realized spending, dinars	Individuals covered
TOTAL	**1,306,527,694**	**78,975**	**880,784,869**	**119,931**	**410,113,996**	**101,006**	**1,617,710,829**	**181,068**
Harmonisation of offer and demand	**80,775,773**	**-**	**100,927,504**					
Career guidance and counselling	**1,622,596**	**65,989**	**8,787,715**	**96,631**	**1,150,575**	**78,335**	**2,840,891**	**138,016**
Group Information								34,946
Employability assessment and individual employment plans								20,730
Information about career development possibilities	419.905,00	30,908	6,405,047	52,552		33,056		21,438
Counselling		10,815		9,451		10,044		9,097
Selection and classification		13,942		14,059		7,920		6,926
Job fairs	515.809,50	4,086	1,180,009	8,207	582,844	13,324	417,534	27,851
Active Job Seeking training	686.881,69	6,238	1,202,659	12,362	567,731	14,591	2,423,357	17,028
Job clubs	*60.280,00*	*0*	*317,451*	*0*		*120*		*507*
Active Job Seeking training AJS 1	*626.601,69*	*6,238*	*885,209*	*12,362*	*567,731*	*14,471*		*16,521*
Self-efficiency training AJS 2								*0*

Additional education and training	**1,004,087,759**	**7,892**	**516,807,586**	**10,779**	**76,457,538**	**4,086**	**418,669,132**	**11,325**
Functional basic education of adults					65,123	47	273,067	46
Vocational training	962,224,127	864	420,173,639	2,165		2,151	275,483,268	6,177
Trainees	*830,417,850*	*764*	*191,362,686*	*1,452*	*8,858,396*	*797*	*104,518,277*	*1,451*
Trainee - volunteers			*101,185,288*	*634*	*21,660,981*	*1,354*	*154,007,475*	*2,132*
Volunteers - practitioners							*16,957,516*	*2,594*
Talents	*131,806,277*	*100*	*127,625,665*	*79*				
Co-funding of postgraduates					7,758,407	148	12,815,036	180
Training	29,782,854	6,355	90,578,019	7,960		1,120	124,502,090	4,418
Basic computer literacy training	*20,657,193*	*4,958*	*51,981,517*	*5,625*	*8,127,388*	*411*	*28,836,815*	*1,456*
Computer literacy training	*3,621,143*	*416*	*3,507,395*	*666*	*188,920*	*336*	*34,663,347*	*1,225*
Foreign language training	*5,105,053*	*792*	*14,253,285*	*1,536*	*3,814,608*	*258*	*17,549,555*	*919*
Retraining and additional training							*4,587,014*	*4*
Virtual enterprises							*95,838*	*53*
Other trainings	*399,466*	*189*	*20,835,823*	*133*		*115*	*20,367,767*	*761*
Other trainings	8,097,820	673	6,055,928	654				
On the job training					6,184,864	620	18,401,755	504

Job subsidies	**220,041,572**	**5,094**	**254,262,064**	**12,521**	**332,505,884**	**18,585**	**1,196,200,806**	**31,727**
Entrepreneurship development and employment programmes	220,041,572	4,607	253,616,610	10,262	332,505,884	18,585	1,123,535,806	27,027
Promotion of entrepreneurship	448,026	692	1,847,390	1,102				
New job creation – new employment	536,000	1,861	79,554,544	5,793				
Participation in new job creation	5,389,699	79	14,615,708	44				
Information, counselling and education services in business centres					4,843,767	15,508		8,332
Education in business centres							6,504,226	7,854
Subsidies for self-employment	153,799,305	1,305	64,085,000	2,635	234,106,500	2,646	945,015,000	9,674
Regional programmes						278	119,160,000	937
New employment subsidies					29,843,000	98	3,374,810	133
New employment – subsidising contributions								
Other measures*								
New employment of disabled persons - furnishing of workplaces	*6,892,443*	*100*	*10,824,000*	*180*	*18,672,830*	*55*	*13,660,000*	*97*
New employment of disabled persons - reimbursement of salaries							*37,210,245*	
New employment of disabled persons - subsidy of contributions payable by employer								

Public works								
Participation of projects								
Project Severance to job								
Lump sum disbursement of unemployment benefit for self-employment*	50,240,935	570	75,445,968	508	25,012,418		44,500,000	305
Subsidy of contributions					64,724		28,158,000	4,395
Subsidy of contributions for persons older than 45/50								
Subsidy of contributions for persons younger than 30								
Subsidy of contributions for trainees, younger than 30								
Subsidy of contributions for disabled persons								
VOLUNTEERS ON PROGRAMME OF EMPLOYMENT CENTRES		487		2,259				

Source: NES.

Table A2 (continued). Realized spending and individuals covered by type of programme, 2006-2007

	2006				2007			
Programmes and measures	Realized spending, dinars	Individuals covered	Employed persons	% in total employed persons	Realized spending, dinars	Individuals covered	Employed persons	% in total employed persons
TOTAL	**1,720,792,502**	**675,523**	**71,840**		**2,641,145,092**	**831,597**	**100,022**	
Career guidance and counselling	**6,016,820**	**625,233**	**44,056**	**65.82%**	**6,962,009**	**760,875**	**70,128**	**70.11%**
Group Information		267,337				295,540		
Employability assessment and individual employment plans		243,339	33,284	49.73%		347,088	55,087	55.07%
Information about career development possibilities		20,744				5,949		
Counselling		8,459				8,849		
Selection and classification		10,557				12,921		
Job fairs	2,959,355	33,857	4,367	6.52%	3,058,049	47,388	7,345	7.34%
Active Job Seeking training	3,057,464	40,940	6,405	9.57%	3,903,960	43,140	7,696	7.69%
Job clubs		*1,413*	*507*	*0.76%*	*1,397,915*	*2,235*	*671*	*0.67%*
Active Job Seeking training AJS 1		*38,607*	*5,861*	*8.76%*	*2,506,046*	*38,997*	*7,025*	*7.02%*
Self-efficiency training AJS 2		*920*	*37*	*0.06%*		*1,908*		

Additional education and training	**533,759,306**	**11,794**	**4,173**	**6.23%**	**738,248,658**	**14,551**	**4,552**	**4.55%**
Functional basic education of adults	970,480	59	18	0.03%	3,162,657	140		
Vocational training	379,500,584	6,106	2,720	4.06%	449,966,549	7,601		
Trainees		*1,013*	*1,013*	*1.51%*	*91,383,465*	*1,456*		
Trainee - volunteers		*2,615*	*889*	*1.33%*	*203,213,027*	*3,059*		
Volunteers - practitioners		*2,478*	*818*	*1.22%*	*155,370,057*	*3,086*		
Co-funding of postgraduates	4,874,985	205	29	0.04%	33,271,269	123		
Training	148,413,256	5,424	1,406	2.10%	251,848,183	6,687		
Basic computer literacy training	*12,516,148*	*1,257*	*251*	*0.38%*	*15,593,563*	*1,350*		
Computer literacy training	*22,742,263*	*871*	*260*	*0.39%*				
Foreign language training	*8,263,198*	*726*	*145*	*0.22%*	*14,154,288*	*778*		
Retraining and additional training	*104,647,393*	*2,435*	*730*	*1.09%*	*221,800,007*	*4,468*		
Virtual enterprises	*244,255*	*135*	*20*	*0.03%*	*300,325*	*91*		
Job subsidies	**1,181,16,377**	**38,496**	**18,700**	**27.94%**	**1,895,934,425**	**56,171**	**25,342**	**25.34%**
Entrepreneurship development and employment programmes	970,014,280	32,071	12,275	18.34%	1,247,833,821	38,011	10,820	10.82%
Information, counselling and education services in business centres	4,757,461	23,908	4,112	6.14%		27,779	6,053	7.02%
Education in business centres		6,954			11,067,731	18,274		
Subsidies for self-employment	625,741,100	4,942	4,942	7.38%	709,500,000	5,465		

Regional programmes	261,190,000	3,007	3,007	4.49%	396,340,000	4,108	4,108	4.11%
New employment – subsidising contributions	133,833	6	6	0.01%	2,049,677	/		
Other measures*	78,191,887	208	208	0.31%	128,876,412	659	659	0.66%
New employment of disabled persons - furnishing of workplaces	*18,634,000*	*208*	*208*	*0.31%*	*39,040,000*	*401*	*401*	*0.40%*
New employment of disabled persons - reimbursement of salaries	*14,953,531*				*75,044,014*	*371*		
New employment of disabled persons - subsidy of contributions payable by employer	*1,969,908*				*2,060,232*	*7*		
Public works	4,387,467	1,514	1,514	2.26%	132,187,116	3,688	50	0.05%
Participation of projects	26,131,546							
Project Severance to job					40,180,000	382	382	0.38%
Lump sum disbursement of unemployment benefit for self-employment	99,105,000	516	516	0.77%	100,590,565	465	465	0.46%
Subsidy of contributions	81,194,579	4,395	4,395	6.57%	375,142,923	13,625	13,625	13.62%
Subsidy of contributions for persons older than 45/50		1,196	1,196	1.79%		4,574	4,574	4.57%
Subsidy of contributions for persons younger than 30		2,438	2,438	3.64%		7,451	7,451	7.45%
Subsidy of contributions for trainees, younger than 30		738	738	1.10%		1,531	1,531	1.53%
Subsidy of contributions for disabled persons		23	23	0.03%		69	69	0.07%

Source: NES.

Table 5.3. Indicators for impact analysis by type of ALMP, 2002-2007

	LSMS			LFS			Administrative data (RAD)		
	2002	2007	change, %	2004	2007	change, %	2003	2007	change, %
Career guidelines and counselling (see table 6.2)									
Additional education and training									
Youth employment rate (15-24), %	23.9	19.2		19.2	18.7				
Youth unemployment rate (15-24), %	37.4	37.2		48.1	43.7				
Youth employment rate (15-29), %	38.1	33.4		32.6	30.2				
Youth unemployment rate (15-29), %	27.5	27.1		36.9	35.7				
Number of first-job seekers with sec. school or more*	168,807	161,305	-4.4	226,877	180,728		-20.3		
Share of first-job seekers with sec. school or more in total unemp.*	42.2	35.5		32.8	30.9				
Number of unemployed with less than secondary school*	84,730	98,633	16.4	150,513	129,916		-13.7		
Share of unemployed with less than secondary school in tot. unemp.*	21.2	21.7		21.8	22.2				
Entrepreneurship development and employment programmers									
Number of non-farm self-employed	78,204	34,953	-55.3	204,509	192,221	-6.0	200,000	242,000	21.0
Share of non-farm self-employed in total (non-farm) employment	4.4	2.2		10.9	10.6		9.8	12.1	
Number of non-farm wage employees	1,715,895	1,559,570	-9.1	1,676,034	1,620,340	-3.3	1,841,000	1,760,500	-4.4
Share of non-farm wage employees in total (non-farm) employment	95.6	97.8		89.1	89.4		90.2	87.9	
Other measures									

Number of wage employees over 45	683,099	637,985	-6.6	639,345	654,729	2.4			
Number of unemployed over 45	52059	102516	96.9	138,657	149,848	8.1			
Employment rate of persons over 45	58.8	55.8		53.0	49.0				
Unemployment rate of persons over 45	4.2	8.1		11.6	12.7				
Number of wage employees under 30*				257,514	255,868	-0.6			
Unemployed under 30*				270,809	217,102	-19.8			
Employment rate of persons younger than 30*				30.1	30.2				
Unemployment rate of persons younger than 30*				39.2	35.7	-3.5			
Number of first-job seekers under 30*				200,378	159,146	-20.6			
Share of first-job seekers under 30 in total unemployment*				29.0	27.2				
Long-term unemployment share	...	74.2		77.5	81.2				
* LFS data refer to 2006 and 2007.									
Notes: Wage employees and self-employed refer to formal sector.									
In the LFS, formal wage employees defined as full-time wage employees having permanent or temporary job, working in the enterprise, institution, agricultural estate;									
Formal self-employed defined as self-employed having permanent or temporary job, working in other than street, flea market etc.									
In the LSMS, formal wage and self-employed defined according to definition of formal/informal employment given in the text.									

Table 5.4. Employed from the registar, unemployed and vacancies, 2002-2007

	2002	2003	2004	2005	2006	2007
Employed from the register	237,110	238,020	221,156	242,627	291,774	314,847
Employed through programmes of career guidance and counselling	...	...	...	...	44,056	70,128
Vacancies	463,941	513,325	507,694	602,558	707,140	758,832
Unemployed	904,494	944,939	859,728	895,697	914,564	785,099
Ratio of employed from the register and vacancies	51.11%	46.37%	43.56%	40.27%	41.26%	41.49%
Ratio of unemployed to vacancies	1.95	1.84	1.69	1.49	1.29	1.03

Source: NES.

Table 5.5. Unemployed by qualifications, 2002-2007

	2002	2003	2004	2005	2006	2007
Unemployed with no qualifications	347,522	365,464	309,143	331,454	347,964	292,447
Share of unemployed without qualifications in total unemploym.	38.42%	38.68%	35.96%	37.01%	38.05%	37.25%
Unemployed with at least secondary school	556,972	579,475	550,585	564,243	566,600	492,652
Share of unemployed with at least secondary school in total unemployment	61.58%	61.32%	64.04%	62.99%	61.95%	62.75%

Source: NES.

Table 5.6. Unemployed by age groups and unemployed with disabilities, 2002-2007

	2002	2003	2004	2005	2006	2007
Unemployed youth (below 25)	196,751	192,167	172,387	172,840	165,470	138,027
Share of unemployed youth (below 25) in total unemployment	21.75%	20.34%	20.05%	19.30%	18.09%	17.58%
Unemployed youth aged 26-30	167,277	160,424	141,170	136,524	131,146	103,786
Share of unemployed aged 26-30 in total unemployment	18.49%	16.98%	16.42%	15.24%	14.34%	13.22%
Unemployed with disabilities	19,302	31,276	26,483	25,864	27,577	23,202

Source: NES.

Table 5.7. Spending per participants and per employed by active labour market programmes, 2002-2007

(in dinars)

Programmes and measures	2002	2003	2004	2005	2006	2007	2006	2007
	Spending per participants						Spending per employed	
TOTAL	16,544	7,344	4,036	8,909	2,547	3,176	25,711	26,406
Career guidance and counselling	25	91	15	21	10	9	137	99
Group Information								
Employability assessment and individual employment plans								
Information about career development possibilities	7	84						
Counselling								
Selection and classification								
Job fairs	126	144	44	15	87	65	678	416
Active Job Seeking training	110	97	39	142	75	90	477	507
Job clubs						625		2,083
Active Job Seeking training AJS 1	100	72	39			64		357
Self-efficiency training AJS 2								
Additional education and training	127,229	47,946	18,712	35,393	45,257	50,735	127,908	162,181
Functional basic education of adults			1,386	5,936	16,449	22,590	53,916	
Vocational training	1,113,685	194,076	0	44,598	62,152	59,198	139,522	
Trainees	1,086,934	131,792	11,115	72,032		62,763		
Trainee - volunteers		159,598	15,998	72,236		66,431		
Volunteers - practitioners				6,537		50,347		
Talents	1,318,063	1,615,515						
Co-funding of postgraduates			52,422	71,195	23,780	270,498	168,103	
Training	4,687	11,379	0	25,295	27,362	37,662	105,557	
Basic computer literacy training	4,166	9,241	19,775	19,806	9,957	11,551	49,865	
Computer literacy training	8,705	5,266	562	28,297	26,111		87,470	
Foreign language training	6,446	9,279	14,785	19,096	11,382	18,193	56,988	
Retraining and additional training				1,146,753	42,976	49,642	143,353	

Virtual enterprises				1,808	1,809	3,300	12,213	
Other trainings	2,114	156,660		26,764				
Other training courses	12,032	9,260						
On the job training			9,976	36,511				
Job subsidies	43,196	20,255	17,891	37,703	30,674	33,753	63,156	74,814
Entrepreneurship development and employment programmes	47,762	24,714	17,891	41,571	30,246	32,828	79,024	115,327
Entrepreneurship promotion	647	1,676						
New job creation – new employment	288	13,733						
Participation in new job creation	68,224	332,175						
Information, counselling and education services in business centres			312		199		1,157	119,043
Education in business centres				828		606		
Subsidies for self-employment	117,854	24,321	88,476	97,686	126,617	129,826	126,617	
Regional programmes				127,172	86,861	96,480	86,861	96,480
New employment subsidies			304,520	25,375				
New employment – subsidising contributions					22,305		22,305	
Other measures					375,923	195,564	375,923	195,564
New employment of disabled persons - furnishing of workplaces	68,924	60,133	339,506	140,825	89,587	97,357	89,587	97,357
New employment of disabled persons - reimbursement of salaries						202,275		
New employment of disabled persons - subsidy of contributions payable by employer						294,319		
Public works					2,898	35,842	2,898	2,643,742
Project Severance to job						105,183		105,183
Lump sum disbursement of unemployment benefit for self-employment	88,142	148,516		145,925	192,064	216,324	192,064	216,324
Subsidy of contributions				6,407	18,474	27,533	18,474	27,533

Source: NES.

Table 5.8. Persons employed six months after the programme (number and %), 2002-2007

	2006	2007	2006	2007
Programmes and measures	Persons employed 6 months after the program		Impact (% of employed 6 months+)	
TOTAL	**66,929**	**100,022**		
ALMP	**62,018**	**85,942**		
Lump sum disbursement of unemployment benefit for self-employment and subsidy of contributions	**4,911**	**14,090**		
Career guidance and counselling	**44,056**	**70,128**	**7.0%**	**9.2%**
Employability assessment and individual employment plans	33,284	55,087	13.7%	15.9%
Job fairs	4,367	7,345	12.9%	15.5%
Active Job Seeking training	6,405	7,696	15.6%	
Job clubs	507	671	35.9%	30.0%
Active Job Seeking training AJS 1	5,861	7,025	15.2%	18.0%
Self-efficiency training AJS 2	37		4.0%	
Additional education and training	**4,173**	**4,552**	**35.4%**	**31.3%**
Functional basic education of adults	18		30.5%	
Vocational training	2,720		44.5%	
Trainees	1,013		100.0%	
Trainee - volunteers	889		34.0%	
Volunteers - practitioners	818		33.0%	
Co-funding of postgraduates	29		14.1%	
Training	1,406		25.9%	
Basic computer literacy training	251		20.0%	
computer literacy training	260		29.9%	
Foreign language training	145		20.0%	
Retraining and additional training	730		30.0%	
Virtual enterprises	20		14.8%	
Job subsidies	**18,700**	**25,342**	**48.6%**	**45.1%**

Entrepreneurship development and employment programmes	12,275	10,820	**38.3%**	
Information, counselling and education services in business centres	4,112	6,053		
Education in business centres				
Subsidies for self-employment	4,942		100.0%	21.8%
Regional programmes	3,007	4,108	100.0%	100.0%
Contribution subsidies for new employment	6		100.0%	
Other measures		659		
New employment of disabled persons - furnishing of workplaces	208	401	100.0%	100.0%
Public works	1,514	50	100.0%	1.4%
Severance to job program		382		100.0%
*Lump sum disbursement of unemployment benefit for self-employment**	516	465	100.0%	100.0%
Subsidy of contributions	4,395	13,625	100.0%	100.0%
Subsidy of contributions for persons older than 45/50	1,196	4,574		
Subsidy of contributions for persons younger than 30	2,438	7,451		100.0%
Subsidy of contributions for trainees, younger than 30	738	1,531		100.0%
Subsidy of contributions for disabled persons	23	69		100.0%

Source: NES.

Annex 2. Suggestions on programming improvements based on international experience[8]

This chapter reviews international best practice, focusing on Europe, with respect to active labour market programmes (ALMPs) and presents a range of conclusions based on a brief review of the literature.

There is a large evaluation literature with respect to ALMPs in Europe and the OECD and a detailed review is beyond the scope of this paper. The focus here is to draw out conclusions from some of the more recent cross-country reviews and evaluations

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1. The overall impact of ALMPs on unemployment levels in Europe and OECD countries

Even if effective ALMP policies are implemented, one should be realistic about their impact on unemployment levels**.** Since a prime objective of ALMPs is to assist the unemployed to get back to work, they require a steady supply of job vacancies to be effective.
The importance of macroeconomic polices, and the raising of aggregate demand in reducing unemployment, is also noted by Harasty (ed) (2004). This review reaches a similar conclusion to Martin's, namely, that *by themselves, labour market policies cannot generate jobs*. Growth is needed, but, moreover, the *form* of growth is key. It has to be growth that translates into high employment growth, such as that experienced in Southeast Asia in recent decades.

However, as Martin concludes, it is wrong to draw an overly-pessimistic conclusion. From the experience of labour market policies across a range of OECD there is now a good understanding about what works and what doesn't work. More is also understood about the (crucial) interactions between passive and active policies. It is to this literature that we now turn.

2. Conclusions from literature: The impact of specific ALMPs

*Publicly-funded training***.** As noted above, training interventions currently account for the largest proportion of expenditure on active labour market programmes in the EU-27.[9] However, Martin (1998) argues that the literature of publicly-funded training interventions shows mixed results in the OECD. In Canada, Sweden and the United States, some programmes have yielded low or even negative rates of return for participants when the estimated programme effects on earnings or employment are considered alongside the cost of achieving those effects. However, other reviews in the USA considered by Martin highlight successful programmes in terms of earnings gains and positive rates of returns for participants. The most positive gains were for adult women; with respect to adult men, the impact of programmes was mixed. For the young, almost no training programme gave positive results.

In conclusion, he argues that participants in training and public sector employment programmes should continue to make themselves available for employment and that such programmes should not serve to primarily to establish new benefit claimants. Finally, he highlights three conclusions in the design of public training programmes:

- tight targeting on participants is essential;
- programmes should be kept relatively small-scale; and,

[8] This chapter is written by Martin Rimmer.
[9] The same is also true for the OECD countries where in 1996 they allocated 27 per cent of their total spending on active measures to training programmes (Martin, 1998)

- a strong on-the-job component and links with local employers are important.

Harasty (ed) (2004) reaches similar conclusions to Martin and, in addition highlights the following conclusions:

- retraining programmes need to provide marketable skills linked to local conditions;
- training programmes should be accompanied by income support; and,
- the type of training should be linked to the needs of employers and the abilities of the unemployed.

Kluve (2006) finds that traditional training programmes in Europe have a modest likelihood of having a positive impact on post-programme employment rates. Moreover, compared to training programmes, employment services (combined with benefit sanctions) and private sector incentive programmes (discussed below) are more likely to have a positive impact. However, Kluve concludes that training programmes should be continued.

Boone and van Ours (2004), looking at OECD countries, report a positive impact of *training*: an increase in expenditure on labour market training causes the employment-population rate to increase. Moreover, compared to other ALMPs, their study indicates that job training is the most effective way to reduce the unemployment rate and increase the employment-population rate. They explain the strong relationship between job training and a fall in unemployment by arguing that even if training does not influence the job finding rate it may nevertheless reduce the unemployment rates because of its effect on the job separation (turnover) rate.

Private sector employment programmes. Martin (1998) argues that most subsidies to private sector employment yield only small net employment gains in the short-term when aggregate demand and job vacancies are fixed. Evaluations of wage subsidy programmes in a number of countries (Australia, Belgium, Ireland and the Netherlands) suggest that for every 100 jobs created only 10 were net gains in employment. This is accounted for by both dead-weight effects (when employers take advantage of the subsidy to employ workers they would have anyway hired) and displacement effects (when those hired through subsidies displace others who would have been hired without the subsidy). There is some evidence to suggest that net employment gains may be raised to 20-30 per cent or more though tight targeting to particular unemployed groups and monitoring employer behaviour to reduce the misuse of subsidies. However he goes on to note that these types of measure have a number of objectives in addition to creating additional jobs. For example, they may aim to keep workers in touch with the labour market in order that they can remain motivated and retain skills. As such, these goals may be important when looking at programme success even if the net gain from this type of programme is small.

One particular form of subsidy - *aid to starting up a small business*, shows some success. Studies in the USA, for example, highlight employment gains from this type of programme amongst men, aged between 30 and 40, who have a relatively high level of education. Martin concludes that for the longer-term unemployed, employment subsidies may be helpful in maintaining workers' attachment to the labour market. But they need to be targeted, of short duration and closely monitored.

Harasty (ed) (2004), looking beyond start-up grants, stresses the importance of the *wider range of policies, institutions and regulations* that provide a conducive environment for small enterprises. Drawing on ILO experience, the following elements are highlighted:

- implement policies and legal frameworks that foster competitive and economically viable small enterprises and co-operatives;
- encourage manage practices that establish and maintain job quality;
- foster economic opportunities for women as entrepreneurs, employees and members of co-operatives;

- improve market opportunities for micro and small enterprises; and,
- implement strategies to enhance the competitiveness and productivity of micro, small and co-operative enterprises.

Kluve (2006), as noted above, finds that private sector incentive programmes and service (with benefit sanctions) programmes are 40-50 per cent more likely to report a positive impact than training programmes. Kluve concludes that this type of programme should be encouraged. Boone and van Ours (2004), in contrast with the other studies, are less positive with respect to the impact of subsidised jobs on the unemployment rate and the employment-population rate.

*Direct employment programmes in the public sector***.** Martin (1998) concludes that the evaluation literature concerning this measure fairly conclusively indicates that it is not successful in assisting the unemployed to find work in the open labour market. Although there has been a move away from this type of programme in recent years it is still prevalent in some countries where it is used as a condition for the continued receipt of benefits. These types of programmes are also used where the policy goal is to assist the unemployed maintain links with the labour market. But, Martin concludes, job creation schemes often have a low marginal product and need to be used as a short-term measure rather than a subsidised form of long-term employment.

Harasty (ed) (2004), whilst recognising that direct employment programmes are often of limited impact, highlights some of the advantages of this type of measure. Not only can they provide work to the unemployed but they can also contribute to infrastructure development, environmental protection and the provision of community amenities (like recreation and schools) that may attract future investment and create additional jobs.

Kluve (2006) is quite sharp in his conclusion with respect to this category of measure. He estimates that direct employment measures in the public sector are 30-40 per cent less likely to result in a positive impact compared with training programmes. And programmes targeted at young workers fare significantly worse than those targeted at adults. As they are rarely effective, and often harmful to participants' employment prospects, he argues they should be discontinued. There may be a case for continuing them if an equity objective, like increasing employability, is the intention. However, he notes that measuring the impact of programmes on "employability" is very difficult.

*Employment services***.** Martin's (1998) review finds consistently positive outcomes from evaluations undertaken in several OECD countries. Active placement, increasing the motivation of the unemployed, and encouraging and monitoring job search behaviour all help in getting the unemployed back to work. He also highlights the success of re-employment bonuses in the USA (cash payments to those who find a job and keep it for a specified length of time).

He reaches a number of specific conclusions, including:

- The need to integrate active and passive programmes, ideally in a one-stop-shop model;
- The importance of making the continued use of income support dependent on participation in active programmes; and,
- New benefit claimants need to be profiled in order that those at risk of joining the long-term unemployed are provided immediately with enhanced assistance.

Harasty (ed) (2004) highlights a number of specific good practices with respect to employment services. These include:

- The advantages of a one-stop-shop for employment services so that all information that the unemployed need to find to assist entry to the labour market is found in one place;

- The need for employment services to respond to local needs rather than copying models directly from other countries;
- *Partnership* arrangements - a good example being Australia, where components of the employment service programme are sub-contracted to private sector and community organisations; and
- The importance of a good labour market information system.

As noted above, Kluve (2006) reaches positive conclusions regarding employment services in the EU. He states that a good programme of job search assistance, counselling and monitoring, combined with sanctions for non-compliance, have a positive impact on increasing job search effectiveness. Boone and van Ours (2004) also find that this type of measure is beneficial: in their study an increase in expenditure on public employment services caused unemployment to fall.

*Youth programmes***.** Martin (1998) concludes that one of the most disappointing findings of his review is that most evaluation studies indicate that programmes do not help disadvantaged youth gain employment. He does, however, highlight three areas where there may be promising signs. First, the Jobs Corps programme in the USA did result in increased earnings from disadvantaged youths but it had to include savings from lower criminal activity to produce a net social benefit. Second, there is evidence from the USA and Canada that points to the importance of early interventions with respect to disadvantaged youths. This would include not only measures to enhance performance at both primary and secondary levels of schooling bit also pre-school interventions. Thus, children need to leave school better qualified in order that they can more easily enter the labour market. Third, some commentators cite poor attitudes to work as a causal factor behind the failure of youth programmes. A solution to this may be mentoring programmes that provide both monitoring and support. Kluve (2006) also argues that it has hard to assist young people with ALMPs and, like Martin, speculates that public policy should perhaps focus on measures to prevent young people becoming disadvantaged in the labour market in the first place.

Institutional aspects of ALMPs

Harasty (ed) (2004) highlights a number of best practice institutional issues:

- Regarding institutional capacity, the institutions that design and implement employment and labour market policies must have strong leadership, good management and trained staff. Therefore, efforts to build capacity must be introduced when new policies are being implemented.
- Effective policy co-ordination between government agencies and service providers is dependent on policy integration**.** A finding from this review is that an important part of the success in developing effective policies in Europe is explained by the implementation of the *European Employment Strategy* that successfully integrates policy in national action plans for employment.
- Countries also need to take into account human and financial resource constraints when ALMPs are selected. Not every country can finance the substantial management costs associated with some effective but high cost ALMPs in OECD countries.

From this brief review, a number of conclusions can be reached:

Spending on ALMPs. Serbia spends a relatively small proportion of GDP on ALMPs, some 0.1 per cent, as opposed to 0.76 per cent of GDP in the EU-27. A couple of EU-27 countries, however, do spend a similarly low proportion of GDP as Serbia on ALMPs (Estonia, Greece and Romania). Even if programmes were successfully implemented, the extent to which this level of expenditure can have a significant impact is questionable.

The overall impact of ALMPs. Even if effective ALMP policies are implemented, one should be realistic about their impact on unemployment levels**.** Moreover, active measures are only one measure and need to be included in a comprehensive strategy, combining both macroeconomic and microeconomic measures, if inroads are to be made on unemployment.

Impacts of specific ALMPs. Employment services. Consistently positive outcomes are found with respect to the impact of employment services programmes. This has been found to be a particularly effective for of ALMP.

Publicly-funded training. Findings with respect to the impact of training are not as clear cut, but many studies indicate positive, if more modest, impacts. A general conclusion is that this type of programme should be continued, especially if it is tightly targeted, small in scale, and linked to local employers.

Private sector employment programmes. Most reviews conclude that this type of programme has a positive impact, although the net employment gain might be small. Programmes should be targeted, of short duration, and closely monitored.

Direct employment programmes in the public sector. The general conclusion regarding this type of programme is that they are not successful in helping the unemployed find work on the open labour market. However, programmes of this type might have other goals, like keeping participants in touch with the labour market.

Youth programmes. Most evaluation studies find that programmes for the disadvantaged youth do not help them to gain employment. Public policy should perhaps focus on measures to prevent young people becoming disadvantaged in the labour market in the first place.

Institutional aspects. The institutional aspects of ALMP formulation and implementation are key – these include the need to develop effective institutional capacity and policy integration, as well as taking resource constraints into account.