MUTUAL LEARNING PROGRAMME:

PEER COUNTRY COMMENTS PAPER - SERBIA

Placement services, displaced service?

Peer Review on "Systematic Preventive Integration Approach (Support) for Jobseekers and Unemployed"

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Serbia's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

According to the most recent Labour Force Survey from April 2010, employment of the working age population (15-64) reached its historical minimum of around 2,278,000 workers, and the corresponding employment rate dropped to 47.2%. The employment rate for men and women was 54.3% and 40.3%, respectively. Participation rates stood at 67.4% and 50.9%. The unemployment rate has reached 20.1% (19.4% for males and 21.0% for females). This represents 2.7 percentage points or a 54,000 persons increase from October 2009. The long-term unemployment rate stood at 16.9%, with men and women proportionally hit, with rates of 16.5% and 17.7% respectively.

Table 1: Key Labour Market Indicators, 2008-2010

Indicator	October	April	October	April
	2008	2009	2009	2010
Employment rate (15-64)	53.35	50.82	49.96	47.24
Participation rate (15-64)	62.56	60.77	60.50	59.11
Unemployment rate (15-64)	14.70	16.37	17.42	20.08
Youth unemployment rate (15-24)	37.42	40.66	42.48	46.43
Long-term unemployment rate	10.42	10.08	11.41	16.89
Informal employment share in total employment	20.60	18.50	18.20	17.2
Registered unemployment, in 000 (National Employment Service data)	717	763	727	765

Source: Labour Force Survey, Statistical Office of the Republic of Serbia (SORS), except for the last

The economic crisis in Serbia has negatively affected employment in a very dramatic fashion. According to the Labour Force Survey data, the cumulative loss of jobs between October 2008 and April 2010 was some 12.5%. Since the cumulative GDP loss in the same period was 4.7%, it means that for each per cent of GDP lost, employment fell by as much as 2.6 per cent. In most other countries of Central and Eastern Europe, employment elasticity of growth since the start of the crisis, has been in a more typical range between 0 and 1, meaning that the relative drop in employment has been less severe than the drop in GDP.

Although the drop in formal non-agricultural employment was somewhat less severe, at around 7.5%, it was still much faster than the drop in GDP, supporting the idea that apart from the crisis, there exist autonomous causes of this sharp drop in employment. Among other causes, there was the last phase of privatisation and transition restructuring in Serbia. On one hand, the remaining firms yet to be privatised tend to be the least attractive for investors and the least successful; on the other, some recently privatised firms had been shedding labour after the expiration of a temporary ban on lay-offs. In some cases, new owners have miscalculated their chances in the market and become unable to finance their debts, opting for bankruptcy or, sometimes, voluntarily handing over their firms back to the Government.

National Employment Service (NES) data on unemployed, on the other hand, show seasonal variations rather than steady upward trends. April data (reflecting the winter 'hoarding' of unemployed) show unemployment higher by some 5-6% compared to





October. Hence the registered unemployment remained rather stable throughout the crisis. The last available information for August finds 723,000 persons in registers, pretty much the same as two years ago. However, these numbers and their changes over time should be considered very cautiously since they are also influenced by regulatory changes. A new 2009 Law introducing less generous and shorter benefits and stricter reporting rules, might have pushed some effectively inactive, hesitant job seekers as well as those who are informally employed outside the registers, or discouraged some others to join the registers. Furthermore, in the times of crisis there is always political pressure to take down numbers a bit if they are too high, by more earnest figures, rather than just clearing the registers from suspected free riders among the informally employed and inactive.

2 ASSESSMENT OF THE POLICY MEASURE

Serbia adopted its first modern Employment Law (full name: Law on Employment and Insurance in Case of Unemployment) in 2003, the same year when the first batch of 'Hartz reforms' was introduced in Germany. Only six years later, in May 2009, new Employment Law was adopted, as a result of a rapid process of institutional learning and further modernisation efforts. In 2005, NES initiated its own 'change strategy'. Throughout the modernisation process, the NES has been continuously supported by several important EU, ILO and bilateral technical assistance programmes.

Reform of placement services has been quite central to the overall reform of Serbian public employment services. However, as with most other areas, new regulation and a more ambitious approach to placement services have been facing serious implementation limitations stemming from low staff to client ratio, limited funding and overall insufficient institutional capacity of the NES.

The 2003 law introduced a new service delivery model in the area of mediation, and, for the first time, an instrument of formal agreement between the NES and unemployed individuals, as well as some rudimentary profiling. The intention of lawmakers was for the NES to become 'a modern and fast service in order to be able to mediate efficiently between the unemployed person and the employer'. The law, in the wake of a belated privatisation of formerly state-owned firms, put an emphasis on the need to work closely with private sector employers.

The 2003 law stipulated two categories of unemployed who were to enter into formal agreement with the NES on 'conditions, procedure and measures aiming at employment'. These two categories included unemployment benefit recipients and long-term unemployed, with the latter defined as 'waiting' (sic!) for a job for more than two years. Since both criteria are objective and self-evident, profiling was not explicitly mentioned in that law.

However, in the process of the operationalisation of the law, the NES has naturally established profiling in its procedures already in 2004. As a precondition, administrative recording of the unemployed and counselling activities were separated. Two instruments of client segmentation were introduced — a) employability assessment and b) individual employment plan.

Four categories of unemployed distinguished by their employability potential were introduced – a) easily employable on the open labour market with only basic information and mediation services needed, b) employable on the open labour market with more services needed related to capability assessment, competence profiles, active job search support, participation in job clubs, employment fairs etc, c) employable with intensive services, such as intensive training programmes, preparatory support for self-employment, self-employment and job subsidies, public works, and d) unemployed in need of





encompassing support for the reintegration into the labour market – including psychological and medical assessment and support, especially for the persons with disabilities.

In 2010, based on practical experience, the Employability Assessment instrument was revised, and four categories condensed into three – a) employable in the open labour market with less intensive supportive services, b) employable with intensive supportive services, and c) in need of encompassing support. Basically, according to the new rules, former categories a) and b) have been merged into one, in response to the general worsening of labour market conditions affecting adversely average employability of the unemployed.

Conclusion of individual agreements (silently changed into 'individual employment plans' by the NES bylaws, for formal reasons) was slowly picking up due to staff overload and some resistance both among counsellors and unemployed. However, by 2006 individual plans started to be concluded in relatively significant numbers. Table 2 presents the total number of new IEPs concluded each year since 2005:

Table 2: Annual number of persons with concluded IEP

Year	2005	2006	2007	2008	2009	2010 I-VI
Number	20,730	243,339	347,088	347,764	471,653	319,473

Source: Arandarenko and Krstic, 2008; annual reports of NES 2008 and 2009, and semi-annual report of NES for 2010.

The decisive impetus came with the new Employment law in 2009, which explicitly lists the adoption of an individual employment plan (IEP) with the unemployed among the main mediation and counselling measures of NES and requires its conclusion between the NES and each unemployed within 90 days of their registration. Furthermore, there is a rather detailed regulation spanning four subsequent articles of the law. It is stated in Article 45 that IEP represents a basis for participation of unemployed in active labour market programmes (ALMP). IEP is to be revised and updated every six months. Unemployed assessed to be less employable are given priority in ALMP over those who are more easily employable on the open labour market – in fact, the law tacitly acknowledges that with existing staff to client ratio it is not possible to settle IEPs with all newly registered persons within 90 days. Assessment is to be based on 'objective criteria', including education, occupation, work experience, age, gender, duration of unemployment, region etc (Article 48). Unemployed can be sent for medical checks before inclusion into ALMPs, at the expense of NES.

Similarities with the German model

Serbia has a rather long tradition of following the German model of social insurance in general and more specifically the organisation of public employment service. After a period of isolation in the nineties, German influence again became strong during the last decade. German advisors and consultants played many of the key roles in multinational technical assistance projects such as Capacity Building Project of UNDP and CARDS of the EU. From 2006 to 2009, as part of CARDS programme, a German twinning project was realized within the Employment Department and the NES.

It is no wonder then, that not only the general philosophy of the service delivery model and placement services in particular, is similar, but also that there are similarities at the operational level of manuals and protocols. Customer orientation became the first pillar of Change Strategy of the NES in 2005. For profiling purposes, both countries had developed four strikingly similar customer groups at roughly the same time. Recently, four groups were condensed into three in Serbia, and dispersed into six in Germany, but they are still differentiated following the same logic. Although with the list of objective criteria, Serbian law hints at the 'hard' profiling, suggesting a shift towards the US model. The current





manual on which the NES staff performs profiling, still employs a 'soft' approach, following the German model.

Differences

While the model and prescribed practice are similar, some differences stem from the widely different capacities of the two services, as well as from the lack of an integrated approach going beyond the remit of NES in Serbia. Serbian NES is notoriously understaffed, and underfunded, with budget for ALMPs of around 0.1 % of GDP, and operational costs (implicitly through staff time related, but not limited, to mediation and counselling) covering additional 0.05 % (Arandarenko and Krstic, 2008).

In the first half of 2010, a total of 319,473 IEPs was concluded by 462 counsellors, on average 5.8 per sessions per day. The completion of the individual action plan (IAP) is rigorously applied, but pressures of customers mean that some may be waiting for half a year for such an interview with a counsellor. Despite the existence of the Counselling Protocol, evaluations find that there is a variety of individual counsellors' strategies and lack of consistency during the interviews, as a consequence of work pressure and lack of a proper training.

Another important difference is related to the absence of an integrated provision of labour market services and benefits in Serbia. Only around 10% of registered unemployed are eligible for unemployment benefit. Once it expires, there is no instrument of unemployment assistance. The only support available is general access to family-based social assistance (so called 'material support of the family'), which is delivered by the centres for social work. These centres are basically disconnected from the PES, and there they have no activation and labour market reintegration strategies. The law on social assistance is currently being changed, and some modifications will be introduced, but overall there is a disconnect between the NES and the centres for social work will not be overcome.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

As explained, Serbia is very perceptive to German institutional and policy experience which has served in the past as an inspiration and model for the creation and modernisation of its public employment service. Serbian PES is at least as centralised as the German system. Relations between these two systems at the managerial and professional levels remain very intensive. More recently, not only by sheer coincidence, both PES shifted towards customer oriented services.

However, there are limitations to transferability of the German experience, successful as they might be, to Serbia, and they are at least threefold. First, initial labour market conditions and levels of economic development in the two countries are very different. Second, there are significant differences in capacity, funding and levels of sophistication between the two services. Third, there are significant differences in the overall architecture of labour markets and social assistance, which are disconnected both conceptually and organisationally (operating under two different ministries and two uncoordinated laws), which prevent or make it very difficult to implement an integrated approach aimed to follow the unemployed, provide basic security and encourage their activation beyond the scope of PES intervention.

The placement budget (as flexible and individualised financial assistance to job seekers) faces sharp financial constraints in Serbia. It cannot be introduced by a rearrangement of existing sources of financing, but would rather require additional funds, since job seekers,





are according to current rules, are largely left on their own in covering search related expenses. In addition, introduction of a placement budget would require much more intensive service in terms of devoted time and attention to clients.

This is, however, not to say that it would be impossible to introduce placement budgets. On the contrary, the new Employment Law has reduced the generosity of unemployment benefits precisely in order to free some additional funds for activation measures and active labour market programmes. Therefore, what is in German circumstances not much more than reorganisation allowing for more flexibility, could be seen as more important and revolutionary in the Serbian context – not only reorganising the existing support menu, but indeed widening it substantially.

A new approach to placement-related services, aimed at more flexible contracting out of placement-related services, is recognised implicitly in new Serbian Employment law, but is still quite marginal in practice. The key precondition for their wider implementation is a much more generous budget for mediation and counselling, which is only at a symbolical level now.

Transferability is further questioned by two recent developments. First, as a part of a general downsizing programme in public administration, the NES was forced to cut its staff by 10% in 2009. Its current total staff of 2,000, among which only consists of 462 counsellors, has to serve over 700,000 clients. Second, as a part of a push for decentralisation, the NES will have to move its headquarters from Belgrade to Kragujevac by the end of the year. Noble as it is, this reallocation will cause further disruption in the normal operations of an otherwise overburdened service at a very difficult time for the Serbian labour market. These two developments are both displacements of a kind, Hence the title.

4 QUESTIONS

- Since job placement services in Serbia are limited to NES clients, with very weak links to Centres for Social Work, we would be interested about the German experience in creating preconditions for their better integration. From where to start Constitution, laws on Employment and Social Assistance, or would it be possible to have a quick fixes as short term improvements without changing fundamentals? Would it be necessary to create a Serbian counterpart to Jobcentres, or could Centres for Social Work be re-organised to better serve the needs of the most vulnerable unemployed?
- Since unemployment is pervasive in Serbia, there is an empirical tendency to focus
 on groups with better chances in the labour market. Could the special target group,
 oriented towards placement programmes, be a solution? Is there more information
 on the design, as well as evaluations and lessons to be learned from the three
 recent German group oriented programmes ('Training for Low Skilled Employees in
 Firms', 'Integration Steps for Support Clients' and 'Intensive Integration Support')?





ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country

- Extremely unfavourable labour market situation employment at a historical minimum, employment rate of working age population 47.2%, unemployment rate reaching maximum of 20.1%
- Impact of the crisis in labour market almost devastating GDP down by 4.7% from October 2008, but employment lower by 12.5%
- Registered unemployment very high at over 700,000, but not significantly higher than at the start of the crisis
- Long term (12+ months) and very long term (24+ months) unemployment account for more than two thirds, and more than a half of total unemployment, respectively

Assessment of the policy measure

- Profiling and individual employment plans conceptualised after 2003; new impetus by the new Employment Law introducing universal mandatory placement services
- Client differentiation philosophy and procedures quite up to date in Serbia, influenced by German PES protocols
- However, problems related to very unfavourable counselling staff to client ratio, poor funding, lack of properly trained staff leading to wide variations in the quality of the IEPs
- Further difficulties because lack of integrative services beyond the NES Centres for Social Work not designed and not sufficiently equipped to deal with unemployed and to support their activation

Assessment of success factors and transferability

- High level of accordance of social protection systems and existing cooperation with German PES is a good starting point
- Placement budgets difficult to develop, since additional funds are needed rather then reallocation of existing funds, but the case for them is strong
- Importance of special target group placement programmes to deal with the most vulnerable unemployed
- Full integration of placement services probably requires fundamental change in regulation of social assistance

Questions

- How to integrate placement services and activation interventions beyond the PES remit
- What is the experience with the special target group placement programmes?



