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ACTIVE LABOUR MARKET POLICIES IN BOSNIA AND HERZEGOVINA: FROM DIRECT EMPLOYMENT TO STRENGTHENING THE EMPLOYABILITY OF JOBSEEKERS

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Active labour market policies in Bosnia and Herzegovina are mostly orientated towards direct employment and attempts to manage the consequences of the present socioeconomic context, while the potentials of strategic, long-term strengthening of jobseekers' competitiveness is being neglected. The main goal of this paper is to present international trends in activation policies, which have recently undergone a paradigm shift from employment to strengthening of employability, and to analyse the present state and institutional framework of active employment policies in BiH. Based on the identified shortcomings of the existing design of active measures, several recommendations are given to improve the field of employment policies by strengthening their active dimension and building a long-term approach to labour market improvements.

ABSTRACT

1. INTRODUCTION

Unsatisfactory economic trends and inadequate institutional framework of labour market policies in Bosnia and Herzegovina (BiH) have resulted in bad labour market performance, which is reflected in high unemployment rates and low participation of working-age population in the labour market (see Box 1).

Although the effects of the 2008 financial crisis have further exacerbated the situation on the labour market, unemployment rates were high even in the years prior to the onset of the crisis, when annual economic growth amounted to around 6% of the GDPii, which is explained, along with other economic factors, by structural imbalances on the labour market caused by the gap between the demand for specific

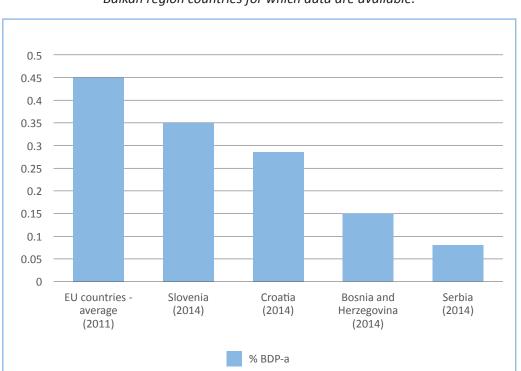
Characteristics of the labour market in BiH (2015)ⁱ

- Labour Force Survey (LFS) unemployment rate in 2015 was as high as 27.7%.
- LFS youth unemployment rate is 62.3%, and is the highest youth unemployment rate in Europe.
- LFS employment rate has constantly been low (31.9% in 2015).
- The share of long-term unemployment in the total unemployment rate is enormous; 82% of jobseekers have been out of work for a year or longer, half of them seeking employment for over five years.
- In addition to the high unemployment and low employment rates, BiH labour market is characterised by a low activity rate of only 44.1%.

skills and qualifications on the one hand, and the supply of such skills and qualifications on the market on the other. With that in mind, it is possible to argue that cyclical and structural unemployment coexist in BiH, whereby structural unemployment is a long-term problem requiring a more complex set of labour market interventions to reduce it.

In spite of the present state of the labour market and the current trends, active labour market policies (ALMPs) are underdeveloped and of questionable effectiveness. Above all, active measure programmes face financial limitations. Although there has been a slight increase in public spending on ALMPs, it is still insufficient. Thus in 2014 expenditure for ALMPs was a mere 0.15% of GDPiv, which is significantly lower than the EU average, which, according to 2011 datav, amounts

to 0.45% of GDPvi. Furthermore, in 2011, only around 1% of the labour force was covered by ALMP programmesvii, while, for instance, the coverage in OECD countries for which data are available was around 4% in 2013viii. In addition, existing analyses indicate that that these programmes often target population categories which have better chances of finding employment anyway, which is inadequateix. Still, because there are no systematic evaluations conducted by all public employment services (PES) in BiH using uniform methodology, and no adequate macroeconomic analyses of the impact of employment policies, it is not possible to draw precise and definite conclusions about the results and effectiveness of individual ALMP programmes in BiH, or ALMPs in general. Finally, the capacities of PESs are greatly limited, which in turn hinders quality implementation of ALMP programmes^x.



Graph 1.1. ALMP expenditure as a percentage of the total GDP: EU countries and Balkan region countries for which data are available.

Source: EUROSTAT and Centre of Public Employment Services of Southeast European Countries^{xi}

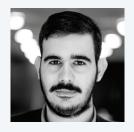
However, in addition to the development and implementation problems, the existing design and institutional framework of ALMPs in BiH do not follow international trends of employment policy activation and paradigm shift from financing direct employment to strengthening competitiveness, that is, employability of the labour force. Namely, the existing ALMPs in BiH are mainly isolated labour market interventions intended to address some of the pressing social and economic problems, primarily through subsidising employment of target groups, whereby such measures are not coupled with passive labour market measures such as jobseekers' allowance, their portfolio is limited and mostly focused on direct employment, which ultimately means these measures are short-term and devoid of a vision of a long-term approach to strengthening competitiveness of jobseekers and inactive persons.

2. ACTIVE LABOUR MARKET POLICIES: FROM SUBSIDISING EMPLOYMENT TO STRENGTHENING EMPLOYABILITY

In simplest terms, ALMPs can be defined as sets of measures take to "improve the functioning of the labour market that are directed toward the unemployed"xii. More broadly, they can be defined as economic measures to reduce structural imbalances in the labour market by matching the supply and demand of labour, maintaining the supply by keeping long-term jobseekers and other categories of "outsiders" in the labour market, increasing the demand through job creation, and strengthening labour force productivityxiii. These measures usually involve support in finding work (for instance, through career counselling and guidance, individual employment plans, etc.), training, job creation in the public sector, subsidies for employment in the private sector, and self-employment programmes. In the mid-1990s, there was an activation turn in ALMP discourses,

whereby the focus was shifted onto stimulating employment and strengthening the employability of jobseekers and inactive personsxiv. Unlike in the 1970s and 1980s, when direct employment and occupational measuresxv dominated ALMPs as a reaction to high cyclical unemployment, i.e. low demand for labour force, in the 1990s many countries re-orientate their employment policies towards strengthening labour force competitiveness, seeing that at the time the cause of unemployment was mostly identified in the excess supply of unqualified and uncompetitive labour force^{xvi}. In addition, the new employment policy paradigm was based on incentivising participation in the labour market and assistance in finding work, rather than promoting passive measures, such as unemployment benefits, which were considered to have a certain negative, demotivating effect on jobseekers, turning them away from seeking work on the formal labour marketxvii. In other words, passive measures were being scale back in favour of active measures. Although a gradual transition from passive to active measures was originally advocated, studies as well as practice in different countries have shown that a combination of these two approaches yields optimal results, as it guarantees income security during participation in active job seeking competitiveness strengthening programmes. Thus contemporary activation strategies are mostly conceived as integral sets of active and passive measures and instrumentsxviii, whereby claiming of jobseekers' allowance and other benefits is mostly contingent on participation in ALMP programmes and active job seekingxix.

In short, activation policies in the last two decades have mostly been based on strengthening incentives for seeking employment in the formal labour market and investment in human capital^{xx} (e.g. through training, education measures, professional reorientation programmes, etc.), whereby the focus of such interventions is moved from direct employment



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measures, which used to predominate, to strengthening employability, that is, competitiveness of jobseekers^{xxi}.

Activation policies have thus become part of EU social and developmental policies. In that sense, activation is seen as a way to attain a social welfare system which is sustainable in the long run and rests on economic empowerment and greater integration of welfare usersxxii into the labour market, that is, on a transfer from the social welfare system to the formal labour marketxxiii. This approach stresses the potentials and the need for long-term investment in the development of human resources and productive labour force, focusing on the prevention of structural unemploymentxxiv, whereby ALMPs in conjunction with a quality education system play a pivotal role. This is why EU countries spend a little over 1/4 of the total ALMP expenditure on training and related measures (these measures being the largest item in the expenditure breakdown)xxv.

3. ALMPS IN BIH – NO STRATEGIC APPROACH TO ACTIVATION AND STRENGTHENING OF JOBSEEKERS' COMPETITIVENESS?

Employment policies in BiH do not follow international standards of institutional design and an approach to activation. First of all, these policies are dominated by passive labour market measuresxxvi. Although BiH matched its ratio of financing active and passive measures with that in the EU countries - whereby ALMP programmes make up around 1/3 of the total public spending on these measuresxxvii - ALMPs are of tertiary importance in the structure of spending on employment measures, and are mostly financed from the funds of public employment services (PES) left over after administrative operative costs and costs of passive measures have been metxxviii. In addition, ALMPs and social welfare systems do not sufficiently correspond with each other, which limits the active measures to ad hoc labour market interventions, while the existing design of ALMP programmes mostly neglects the component of strengthening the competitiveness of labour force and investment in human capital, and therefore lacks the capacity to reduce the structural imbalances in the labour market in BiH. Finally, the system of support in finding work needs substantial improvement, as active measures are mostly underdeveloped and have been neglected in the recent period^{xxix}.

3.1. Lack of Integration of Active and Passive Labour Market Measures and Other Social Measures

ALMPs in BiH are institutionally isolated from complementary labour market policies and institutes – first and foremost from passive policies and the social welfare system.

The legislation regulating the field of matching workers to employers and the social welfare schemes for jobseekers in both BiH entities and Brčko District does not institute linkage between active and passive labour market measures, and the existing system of passive measures does not encourage participation in ALMP programmes. Furthermore, there is no institutionalised transfer between these programmes, in terms of their internal consolidation and coordination in the context of employing jobseekersxxx. Participation in ALMP programmes is mostly optional, and participants are found via advertisements targeting employers and target groups. Finally, state- and entity-level strategic documents relevant for employment and the labour market, whether revoked or still in effect, have not treated the problem of consolidation of active and passive measures in a substantial manner*xxi.

The situation is similar in the field of social welfare policies. Not only does the existing social welfare system discourage welfare users from participation in the formal labour market, it does not include an activation component, that is, there are no appropriate ALMP programmes which would ensure greater transfer^{xxxii} from the social welfare system and the labour market^{xxxiii}.

3.2. Investment in the Development of Human Resources – a Neglected Activation Component in BiH ALMPs

An important component of activation strategies are human resources development measures which, in the context of ALMPs, are mostly found in education and training programmes, that is, on those programmes which aim to improve the skills of the labour force and thus render it more competitive. Yet, it seems that BiH labour market policies lack this kind of orientation.

Existing ALMPs are dominated by employment co-financing measures xxxiv, primarily implemented through wage subsidy and self-employment programmesxxxv. Although the impact these measures have had on the labour market are not fully known (because active measure evaluation mechanisms of PESs are underdeveloped and there are no comprehensive macroeconomic analyses and impact evaluations), it may be assumed, based on the existing portfolio of direct employment programmes, that they are mostly limited to the management of the consequences of cyclical unemployment. In other words, these programmes are based on "job leasing", while their chances of bridging structural gaps on the labour market and realising long-term potentials of activation policies are slim.

On the other hand, training and skill readjustment programmes (training, career reorientation, additional qualification, etc.), which could help jobseekers and inactive persons adapt to new trends and circumstances (the demand for certain skills and competences), figure less significantly in the existing employment policies. Thus in 2014 only 1/5 of the total participation in ALMP programmes was participation in training and skill improvement programmesxxxvi, while, for instance, the share is over 1/3 in the OECD countries and the EU countries for which data are available xxxvii. In addition, the existing infrastructure and capacities for the implementation of these programmes are underdeveloped and insufficientxxxviii. In the recent period, decision makers have not shown much interest for these measures, although, in conjunction with adequate career guidance and individual employment plans, they could help reduce structural and long-term unemployment and increase labour productivity. As such, they could be a pillar of activation strategies and long-term investment in human resources.

4. CONCLUSION AND GENERAL RECOMMENDATIONS

The role of ALMPs in BiH has been reduced to partial and extremely uncertain managing of the consequences of the existing socioeconomic context, instead of improving the functioning of the labour market in the long run. In other words, ALMPs are still based on direct employment instead of strengthening employability through activation of jobseekers and inactive persons.

Focusing more on the active approach to employment – whereby a greater level of activation of employment policies and integration of active and passive measures should be set as a goal - and on reorientation of ALMP measures towards education programmes and strengthening jobseekers' competitiveness, would ensure timely inclusion in ALMP programmes in cases of job loss, and would thereby contribute to the efforts on preventing long-term unemployment and exclusion from the labour market. In addition, this approach would enable strategic and long-term investment in human resources by teaching jobseekers skills which are in demand, thereby strengthening jobseekers' competitiveness.

In order to improve the present state of employment policies and the efforts to improve their active dimension and build a long-term approach to improving the functioning of the labour market, the following steps are necessary:

- 1. Internally consolidate employment policies and integrate them with social welfare policies. Effort shout be made to activate employment policies, link active measures with passive ones, without neglecting the need to reorganise and further improve the scope, efficiency and effectiveness of passive labour market policies. Furthermore, it is necessary to create an institutional framework for a greater degree of integration of social welfare measures and employment policies by coordinating the work of social care centres and public employment services.
- When designing ALMPs, greater stress should be laid on training programmes which would ensure the adaptation of jobseekers to the conditions and de-

mands of the labour market. This, in conjunction with adequate reforms in education and a strategic approach to employment, would reduce structural unemployment and prevent long-term unemployment through timely career reorientation and improvement of skills, that is, improvement of competitiveness of jobseekers.

The above steps should be part of a somewhat more comprehensive strategic reorientation of employment policies in BiH, whereby policy makers should strive towards long-term investment in human resources, and place employment policies in the broader context of development. This would require an increase in public spending on ALMPs as well as institutional capacities and preconditions for adequate implementation of policies. Finally, improvements in the field of labour market policies must be accompanied by adequate macroeconomic policies and structural reforms in order to create preconditions for creating new jobs without which these measures cannot be anything more than a stopgap.

References

i Agency for Statistics of Bosnia and Herzegovina, Labour Force Survey: 2015, final results (Sarajevo: Agency for Statistics of Bosnia and Herzegovina, 2015), http://goo.gl/yOHGNO (accessed on 9 August 2016).

ii See Dmitriy Kovtun et al., *Boosting Job Growth in the Western Balkans* (International Monetary Fund, 2014), p. 6, https://goo.gl/DlLMfr (accessed on 9 August 2016).

iii See Mirna Jusić and Amar Numanović, Flexible Labour in Inflexible Environment: Reforms of Labour Market Institutions in Bosnia and Herzegovina in Comparative Perspective (Sarajevo: Analitika – Center for Social Research, 2015), p. 24, http://goo.gl/c1flKn (accessed on 9 August 2016).

iv Viljem Spruk, *Statistical Bulletin No. 5* (Ljubljana: Employment Service of Slovenia, 2015), p. 67, http://goo.gl/6qxAC5 (accessed on 9 August 2016).

v Although the latest available integral data date from 2011, it is possible to conclude, based on the calculation of the unpondered average for the EU countries whose data was published by EUROSTAT, that the spending in the period 2012–2014 was more or less the same, that is, there were no significant

changes in the financing of active labour market policies in the EU expressed as a percentage of the total GDP. Quoted in: "Labor Market Policy", EUROSTAT, http://goo.gl/yHnkAJ (accessed on 9 August 2016).

vi "Labor Market Policy".

vii Quoted in: Ibid.; and Spruk, Statistical Bulletin No. 5.

viii See Jusić and Numanović, *Flexible Labour in Inflexible Environment*, pp. 81-85.

ix Refers to ALMP programmes' coverage of the labour force. Author's calculation (unpondered average) based on "Public Expenditure and Participant Stocks on LMP", OECD Stat, https://goo.gl/4lpgxy (accessed on 9 August 2016).

x Council of Ministers of BiH, Employment Strategy in Bosnia and Herzegovina 2010-2014 (Council of Ministers of BiH, 2010), p. 26, http://goo.gl/VoJhp0 (accessed on 9 August 2016).

xi Author's calculation based on Spruk, *Statistical Bulletin No. 5*.

xii Lars Calmfors, "Active Labor Market Policy and Unemployment – A Framework for the Analysis of Crucial Design Features", *OECD Economic Studies*, no. 22 (1994), p. 8, https://goo.gl/d7GM5S (accessed on 9 August 2016).

Veronica Escudero, Are Active Labour Market Policies Effective in Activating and Integrating Low-Skilled Individuals? An International Comparison (Geneva: International Labour Office, 2015), pp. 2-5, http://goo.gl/vjr03d (accessed on 9 August 2016).

See Giuliano Bonoli, The Political Economy of Active Labour Market Policy (Edinburgh: Dissemination and Dialogue Centre, 2010), http://goo.gl/ MBJyU3 (accessed on 9 August 2016); and John P. Martin, Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness (Bonn: IZA, 2014), http://goo.gl/ UdX26x (accessed on 9 August 2016). Also see Jusić and Numanović, Flexible Labour in Inflexible Environment, pp. 77-81.

Occupation measures are different programmes aimed to provide some work activities for jobseekers in order to prevent deterioration of their skills or their exclusion from the labour market during a period of unemployment. This approach is dominated by programmes such as the creation of public sector jobs or organising training sessions which are not employment-orientated. Although significant for maintaining jobseekers' work routines and keeping them active, such measures generally do not have substantial long-term effects on the functioning of the labour market. For a more detailed discussion see Bonoli, The Political Economy of Active Labour Market Policy, p. 11 and 17-20. xvi Bonoli, The Political Economy of Active Labour Market Policy, p. 20.

xvii See Martin, Activation and Active Labour Market Policies in OECD Countries; Organisation for Economic Co-operation and Development (OECD), "Labour Market Programmes and Activation Strategies: Evaluating the Impacts", in OECD Employment Outlook 2005 (OECD, 2005), https://goo.gl/wpYyKo (accessed on 9 August 2016); Jusić and Numanović, Flexible Labour in Inflexible Environment.

See Martin, Activation and Active Labour Market Policies in OECD Countries, pp. 3-5; Jusić and Numanović, Flexible Labour in Inflexible Environment, pp. 77-81.

This approach varies from country to country in terms of the scope and level of negative stimulation, the duration of unemployment prior to inclusion in ALMP programmes (i.e. the period in which jobseekers are entitled to benefits etc.), the duration of participation in active job seeking programmes, etc. In European countries, contingency of benefits on participation in active job seeking programmes is mostly associated with high benefit replacement rates, which ensures adequate social security and living standard during job search. Also see Martin, Activation and Active Labour Market Policies in OECD Countries.

See Bonoli, The Political Economy of Active Labour Market Policy.

xxi Of course, the design and goals of ALMPs differ substantially from country to country as regards the specific qualities of their labour markets and the general economic context. Yet it is possible to identify trends in ALMPs and their basic characteristics on a more general level, as shown in Ibid.

The social welfare system comprises the social security system based on salary withholdings (retirement and disability insurance, health insurance, unemployment insurance, etc.) and the social assistance system based on budget transactions. In that sense, passive measures are social protection measures.

See, for instance European Commission, Euxxiii ropa 2020: A European Strategy for Smart, Sustainable and Inclusive Growth, COM(2010) 2020 (Brussels: European Commission, 2010), http://goo.gl/ j6anX (accessed on 9 August 2016); as well as Amar Numanović, Social Assistance System in BiH: The Neglected Potential of Active Social Policies (Sarajevo: Analitika - Center for Social Research, 2016), http://goo.gl/ER81yj (accessed on 9 August 2016). European Commission, Towards Social Investment for Growth and Cohesion - Including Implementing the European Social Fund 2014-2020 (Brussels: European Commission, 2013), http:// goo.gl/yqwXnf (accessed on 9 August 2016); European Commission, Europa 2020: A European Strategy for Smart, Sustainable and Inclusive Growth.

Author's calculation based on "Labour Mar-XXV ket Policy".

On top of that, passive measures also suffer from numerous problems and shortcomings, such as low coverage, low benefit replacement rate, limited duration, etc., therefore further improvements are needed. For more details see Jusić and Numanović, Flexible Labour in Inflexible Environment, pp. 77-89. Quoted in Spruk, Statistical Bulletin No. 5;

xxvii and "Labor Market Policy".

xxviii "Zakon o posredovanju u zapošljavanju i socijalnoj sigurnosti nezaposlenih osoba" [Law on Mediation in Employment and Social Security of Unemployed Persons], Official Gazette of the Federation of BiH 55/00, 41/01, 22/05 and 9/08, Arts 48 and 49; "Statut Zavoda za zapošljavanje" [Articles of Incorporation of the Employment Institute], Official Gazette of the Republika Srpska 25/01, Art 14.

This state of affairs may be ascribed to the insufficient capacities of public employment services/institutes in BiH, as well as to the existing approach to employment which in the past has mostly been based on keeping records on employed persons and providing services from the scope of passive measures. For a more detailed discussion see Jusić and Numanović, Flexible Labour in Inflexible Environment, pp. 77-92.

In that regard, the existing active and passive labour market measures are two separate systems, and there are no adequate mechanisms to include users of passive measures in active jobseeking programmes, except the so-called facultative ALMP programmes. As a consequence of this approach, many jobseekers report to their local job centre, but they do not participate in active job seeking programmes. Integration of active and passive measures would entail, among other things, a timely and effective inclusion of jobseekers in active job seeking (career guidance and counselling, individual employment plans, jobseekers' clubs, etc.), as well as other ALMP measures such as education (training, additional education courses, career reorientation, etc.) or job subsidy measures. See also: Council of Ministers of BiH, Employment Strategy in Bosnia and Herzegovina 2010-2014, as well as Venesa Omerhodžić and Ranko Markuš, Perspektive razvoja javnih službi za zapošljavanje 2016 – 2020 [Development Perspectives of Public Employment Services] (Sarajevo: Youth Employment Project, 2015), http://goo.gl/VOGMgn (Accessed on 9 August 2016).

exxxi Employment Strategy in BiH nominally foresees the activation of passive labour market interventions as one of the measures to improve effectiveness, efficiency and management of labour market policies and institutions. However, neither the institutional framework nor the steps for the implementation of this measure were elaborated in the Strategy, and there has been no substantial progress in this field in the years after its publication. See Council of Ministers of BiH, Employment Strategy in Bosnia and Herzegovina 2010-2014, pp. 35-36.

xxxii This transfer only applies to social assistance recipients who are fit for work and wish to enter the labour market without fear of losing their social assistance. This approach also requires strengthening and broadening of the assortment of social services. More in Numanović, Social Assistance System in BiH.

xxxiii Numanović, Social Assistance System in

xxxiv See Elmira Pašagić, Siniša Marčić and Adis Arapović, *Efikasnost politika zapošljavanja u Bosni i Hercegovini: prepreke i šanse* [Efficiency of Employment Policies in Bosnia and Herzegovina: Obstacles and Opportunities] (Sarajevo: Centri civilnih inicijativa, 2013); Council of Ministers of BiH, Employment Strategy in Bosnia and Herzegovina 2010-2014, p. 31; and data from Spruk, *Statistical Bulletin No. 5*, p. 67.

xxxv Council of Ministers of BiH, Employment Strategy in Bosnia and Herzegovina 2010-2014.

xxxvi Quoted in Spruk, Statistical Bulletin No. 5, p. 67.

xxxvii Author's approximate calculation (unpondered average) based on data from "Public Expenditure and Participant Stocks on LMP: Participants Stocks on LMP by Main Categories (% Labour Force)", OECD Stat http://stats.oecd.org/index.aspx?queryid=28937 (accessed on 9 August 2016); and "Participants in Labour Market Policy Measures, by Type of Action", EUROSTAT, http://goo.gl/YqdZRJ (accessed on 9 August 2016).

xxxviii See Jusić and Numanović, Flexible Labour in Inflexible Environment, pp. 81–85; and Pašagić, Marčić and Arapović, Efficiency of Employment Policies in Bosnia and Herzegovina.

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