

ON THE WAY TOWARDS FLEXICURITY IN THE COUNTRIES OF FORMER YUGOSLAVIA

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Abstract: *The paper presents the latest available data on the labour market situation and a systematic in-depth analysis of the level of implementation of flexicurity policy components (i.e. flexibility of working arrangements, lifelong learning strategies, expenditures for social security of unemployed and active employment policies) in the countries of former Yugoslavia. The paper finds that ex-Yugoslav countries are, on average, characterized by relatively strict employment protection legislation and low levels of part-time and temporary employment, in spite of significant liberalization measures during the past decade. Majority of countries provide relatively weak social protection of workers in terms of unemployment benefits schemes with extremely low coverage rate. Furthermore, most of the countries face difficulties in the design and implementation of active employment policies and lifelong learning programmes. The latter two policy components are still poorly developed also in CEE countries.*

Keywords: *flexicurity, employment, labour market, countries of former Yugoslavia*

1. INTRODUCTION

The concept of flexicurity presents a response to changes in national economies due to globalization processes, rapid technology development, demographic aging and labour market segmentation. The quest for balance between flexibility and security in the labour market is today in the core of the European employment agenda as being fundamental for maintaining and improving productivity and competitiveness while reinforcing European social model.

Among countries of former Yugoslavia, only Slovenia, as a member of the European Union (EU), was formally invited to design and implement flexicurity strategies in its labour market arrangements. Nevertheless, the similar expectations will be put in front of other countries of former Yugoslavia in near future as well. The research objective of this paper is therefore to analyse the level of implementation of flexicurity policy components in the countries of former Yugoslavia. In the analysis we study flexibility of working arrangements, lifelong learning strategies, social security of unemployed and active employment policies – i.e. flexicurity policy components set by the EU. Moreover, we examine how ex-Yugoslav countries perform in implementation of these policy components

in comparison to new Central and Eastern EU Member States (CEE)¹, which also underwent transition from centrally planned systems to market economies.

2. THE ANALYSIS OF IMPLEMENTATION OF FLEXICURITY POLICY COMPONENTS

2.1. Flexible and reliable contractual arrangements

One of the most commonly used indicators for international comparison of regulations of labour relations regulations is Employment Protection Legislation Index (EPL), developed by the OECD. The EPL index is compiled from 21 items, covering three different aspects of employment protection: (i) individual dismissal of workers with regular contracts; (ii) additional costs for collective dismissals; and (iii) regulation of temporary contracts. Index values are ranging from 0 (least stringent employment legislation) to 6 (most restrictive employment legislation) (OECD, 2010).

Under the previous socialist regime, the countries of former Yugoslavia had very protective labour legislation. For example, the dismissals of workers were not permitted (except out of disciplinary reasons), workers were mostly employed on the basis of full-time permanent contracts (which provided high security of staying in employment) and were entitled to several employment benefits. However, over the last twenty years the employment protection significantly decreased in all ex-Yugoslav countries through profound changes in national labour legislations. For example, the EPL index in Slovenia amounted 4.1 in 1991, it declined to 3.0 in 1998 and reached the value 2.5 in 2008. Although some of the countries reached the level of employment protection of more developed OECD or EU Member States, the differences in EPL between them are still high. According to the available data, the overall EPL index amounts 2.5 in Slovenia and Kosovo (2001), 2.6 in Croatia and Bosnia and Herzegovina (BiH, 2003), 2.7 in Serbia (2005), 2.8 in Macedonia (2003) and 3.6 in Montenegro (2003). For comparison, the most successful in ensuring flexible employment legislation among CEE in 2008 were Slovakia (1.4) and Hungary (1.7), mostly due to increased flexibility in the area of temporary contracts.

As regards the scope of employment protection in 2003, it was rather high in the area of temporary contracts, especially when comparing to CEE average. The only exceptions to high EPL on temporary contracts were Slovenia and Croatia, due to legalization of temporary work agencies and changes in duration of temporary contracts. Even stricter was the regulation of collective dismissal, being especially high in Montenegro, Kosovo and Croatia.² High protection of collective dismissal could be a consequence of protecting workers from being dismissed through the restructuring processes of large companies and by this preventing a negative impact on labour market and to avoid massive quest for social protection. On the other hand, ex-Yugoslav countries, except Slovenia and Croatia, recorded very flexible regulations in the field of regular employment, being even more flexible than in the CEE and EU-15.

¹ CEE-10 countries are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. We study Slovenia as being part of former Yugoslavia and part of CEE group of countries.

² One of the reasons for differences in EPL index on collective dismissal between countries are, according to Gligorov *et al.* (2008, p. 63), differences in definitions of collective dismissal in national legislation.

Till today the value of total EPL index and/or its sub-indices has probably decreased in some of the ex-Yugoslav countries due to changes in labour legislation (however, there is no official data on value of indices yet available). For example, Macedonia in 2005 adopted amendments to labour law which included reduction of maximum severance payments from eight to six months, reduction of some restrictions on fixed-term, temporary and part-time contracts and reduction of employers' obligation on sick pay from 60 to 21 days (see Feiler et al., 2009, p. 10). In 2006, the Government of Macedonia also adopted Law on Temporary Work Agencies and by this introduced the possibility of hiring agency workers. With the amendments adopted in 2008, the use of fixed-term contracts for permanent task was prolonged from 4 to 5 years. In Montenegro, for example, fixed-term contracts became allowed for permanent task and have no limits of duration. When employers have to dismiss a worker, they are required to give notice of 15 calendar days only and are no longer obliged to give prior notification to a third party (see World Bank, IFC, 2009, 2010a).

As most of the data on EPL index are out-dated, we also analysed the rigidity of employment index developed by the World Bank (see World Bank and IFC, 2010b for methodology). According to the index, the employment regulation is the least rigid in Kosovo, followed by Macedonia and Montenegro and the most rigid in Slovenia and Croatia. The rigidity in the latter two is especially high in the area of hiring workers, as both countries prohibit fixed-term contracts for permanent tasks and allow the use of fixed-term contracts only for 24 (Slovenia) or 36 (Croatia) months. Comparing to other countries, they record also high rigidity of working hours due to regulations on annual leave and work on weekly rest day (see World Bank, IFC, 2010a).

Although the labour markets of former countries of Yugoslavia became more flexible comparing to a decade ago, the level of part-time employment is rather low. For example, in 2009, the share of part-time employment in total employment amounted approximately 2 % in Croatia, 5.3 % in Macedonia, 10.2 % in BiH, whereas it was the highest in Kosovo (16.3 %). In Slovenia, the share of part-time employment in total employment amounted 9.5 %, which is 5 percentage points below the average of CEE. The share of part-time employment in total employment is higher among women and workers employed in agriculture sector. According to Fetsi (2007, p. 116), the non-use of part-time employment is associated with the fact that pension regulations make it very difficult for part-time employees to qualify for even the minimum pension in most of the countries of former Yugoslavia.

More common, on the other hand, are temporary employment arrangements. Their share in total employment is increasing in most of the countries of former Yugoslavia, especially among newly-concluded contracts, young people and lower-skilled people (see Nešporová et al., 2006; Crnković-Pozaić, 2006; Novkovska, 2008). In 2009, the share of temporary employed in total employment amounted 11.6 % in Croatia, 15.5 % in Macedonia and 16.2 % in Slovenia. For comparison, the average value of temporary employed in total employment in NMS amounted 8.0 %, which is 5 percentage points below the EU-15 average. The share of temporary employed in total employment was higher among young people (15-24 years of age): in Macedonia 37.1 %, in Croatia 35.0 %, whereas in Slovenia 66.6 %. For comparison, the average in CEE countries (without Estonia) amounted 21.6 %, which is 18.3 percentage points below the EU-15 average.

2.2. Lifelong Learning

Lifelong learning strategies are crucial for ensuring the long-term employability of workers, especially the most vulnerable. According to the European Commission (2007, p. 12-4),

high participation in lifelong learning is positively related with high employment and low long-term unemployment.

In Yugoslavia adult population was committed to permanent and functional education, however there were no comprehensive lifelong learning strategies developed. Today, the lifelong strategies are in their early stages in all countries of former Yugoslavia (except for Slovenia, which already follows the guidelines of the EU), what is among other reflected in low participation rates of adults in lifelong learning. According to the available data, the participation rate of adults (between 25 and 64 years of age) in lifelong learning in Slovenia amounted 14.6 % in 2009, whereas in Macedonia 2.5 % and 2.2 % in Croatia in 2008. The participation rates are probably even lower in other countries of former Yugoslavia.³ Low participation rates in lifelong learning present also a problem in most of the CEE (for comparison see Eurostat, 2010).

Slovenia already developed a functioning system of lifelong learning, as this is one of the important requirements and expectations of the EU and the Lisbon Strategy. However, in other countries of former Yugoslavia, the importance of lifelong learning is slowly coming in the forefront of employment agenda.⁴ Although these countries, except BiH, adopted strategies or programmes for adult education and lifelong learning⁵ in the past years,⁶ they face problem of how to insure their implementation. This is additionally hindered by the modest public expenditures for adult education and training and lack of EU instruments. Some of the countries receive some funding from different international donors, but the funds are mainly project-oriented, given for a short term and unsystematic (see Popovič, 2009). One of the main reasons for low participation in adult education and training is also the lack of motivation (especially by older and unemployed people), related with the existential problems and quality of life, incorrect perception of lifelong learning as a »shame« and low awareness of employers (see Župarić, 2009; Popovič, 2009; Herić et al., 2008).

2.3. Active employment policies

Several studies pointed on a positive impact of active labour market policies on labour market and economic performance (see for example OECD, 2004; Nešporová et al., 2006; Anspal et al., 2007;), signifying that expenditures for active employment policies could have an important role in reducing unemployment and therefore facilitating employment. However the expenditures for labour market policies are modest in all countries of former Yugoslavia. As the major part of expenditures is devoted for passive employment policies, this leaves an extremely low portion for the active policies. Namely, the expenditures for the latter vary from 0.04 % of GDP in Croatia to 0.18 % in Slovenia. Low funding of active employment policies is also the reality in CEE countries, which in 2008 earmarked only 0.23 % of GDP - this is 0.5 percentage points below the EU-15 average and even 1 percentage point below the countries with the highest expenditures (Belgium and Denmark).

³ The countries of former Yugoslavia, except Slovenia, do not collect systematic statistical data on participation in lifelong learning. The cited data were obtained from Eurostat (2010).

⁴ The progress in national legislation has been especially evident in Croatia and Macedonia, probably also as an obligation to comply with the expectation of EU. The overview of developments is available in Devčić Torbica (2009) and Buova et al. (2009).

⁵ Lifelong learning strategies in these countries are often taken as a synonym for adult education and training.

⁶ The overview of adopted strategies and laws for adult education in countries of former Yugoslavia is available in Popovič (2009) and Devčić Torbica (2009).

The expenditures for active employment policies in most countries of former Yugoslavia are concentrated on wage subsidies for the integration of disabled, job search assistance and support for self-employed and too little on employment incentives, training programs and direct job creation measures.⁷

Moreover, the active employment measures are mostly not organised on a larger scale and therefore include only selected groups of unemployed. Consequently, also the coverage rate (i.e. % of unemployed participating in active employment measures) is low. According to the available data, in 2009 the coverage rate in Croatia amounted 2.5 % (World Bank, 2010), similar rate was also recorded in Macedonia in 2005 (Cazes et al., 2007a, b).

Majority of former countries of Yugoslavia adopted employment programs or plans including the recommendations and measures on implementation of active employment programmes. However, the highest obstacle in implementation of these measures remains lack of funds, which is especially evident in BiH and Kosovo (see Lorencic, 2008; Kita, 2008). The situation regarding funding is at most improving in Montenegro, where the financing of the active labour market measures reached approximately 1 % of GDP in 2008 (Gribben, 2008).

2.4. Social security system

There are significant differences in unemployment benefit programmes between countries of former Yugoslavia. The most generous unemployment benefits can be found in Slovenia, followed by Serbia, whereas in other countries the unemployment benefits are really modest. The extremely low unemployment benefit level was recorded in Montenegro, where it presented 60 % of minimum wage (i.e. EUR55) in 2008. For comparison, the poverty line in Montenegro amounted EUR119 in 2007, implying that the level of unemployment benefit increases the risk of falling into poverty or of resort to the informal economy (see Kaludjerović et al., 2008; Rosas et al., 2007). In Kosovo, labour legislation even does not include unemployment benefits - the social safety net provides only a basic pension and limited social assistance.

In majority of the countries of former Yugoslavia the unemployment benefits are short, as they are mostly limited to 12 months. The duration of benefits is longer only in Federation BiH, Serbia and Slovenia. However, the average benefit duration is probably longer in some countries. Namely, Croatia, Macedonia and Montenegro allow unlimited duration for older workers after certain cumulative duration of employment.

Also the share of unemployed that receive unemployment benefits is very low. The only exception is Slovenia, where almost one third of unemployed are entitled to unemployment benefits. Such low coverage rate in other countries is a consequence of the state of labour market and the composition of the unemployment registers, on which the vast majority present labour market entrants and others who had no opportunity of building up the necessary contributions (Fetsi, 2007).

⁷ The overview of development of active employment policies for Montenegro, Macedonia, Croatia and Serbia is available in the reports of ILO and Council of Europe (Cazes et al. 2007a, b; Rosas et al., 2007; Harasty et al., 2007) and ETF working papers (Gribben, 2008; Feiler et al. 2009; Skjolstrup, 2008).

3. CONCLUSION

Although countries of former Yugoslavia share a common legacy of centrally planned regime, today they significantly differ in their economic performance and by this also in labour market situation, mostly as a consequence of political and economic developments after the break-up of Yugoslavia. This is especially reflected in the level of implementation of flexicurity policy components.

The analysis has shown that the countries of former Yugoslavia significantly liberalized EPL during the past decade, almost reaching the employment protection level of CEE countries. Despite this, the EPL is still relatively strict. On the other hand, social protection of workers in terms of unemployment benefits is rather weak (with exception of Slovenia). Even bigger problem presents the design and implementation of active employment policies and lifelong learning strategies. The latter two policies are at most developed in Slovenia as a member of EU, followed by Croatia and Macedonia, whereas other countries still face difficulties in this area. When comparing the ex-Yugoslav countries to CEE countries, we established that the differences are most obvious in the field of unemployment benefits, active employment policies and lifelong learning.

Study performed by Nešporová et al. (2006) on the NMS and candidate countries showed that employment protection has no significant impact on unemployment levels and that generally weak protection may have a negative impact on labour reallocation and productivity through increasing worker's perception of insecurity. On the other hand, active labour market policies have a positive and significant impact on employment levels and reduce unemployment. Similar impacts of active employment policies on employment and unemployment were confirmed by OECD (2004). However, OECD (2004) on the contrary showed that EPL reduces the inflow rate into unemployment and rate of exit from unemployment and as well increases long-term unemployment.⁸

Hence it follows that well developed policy components of flexicurity can improve employment and unemployment situation and by this affect the labour productivity and the overall economic performance of the country. Therefore, the countries of former Yugoslavia should more intensely work on the effectiveness of active employment policies and lifelong learning strategies, target them on the most disadvantaged group of unemployed and stimulate them to use these programs. Moreover, they should improve the system of unemployment benefits to better the security of unemployed. On this way towards flexicurity, it should be taken into account that each country has to find its own balance between different flexicurity policy components. To achieve this they will have to design appropriate and comprehensive policy strategies, what would demand better dialogue between social partners, stronger state institutions and higher funding.

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⁸ See, for example, also Brown et al. (2009), Anspal et al. (2007).

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