



Belgrade, 29 January 2018

**To: Ministry of Finance
of the Republic of Serbia**

Comments/recommendations concerning the 2018-2020 Economic Reform Programme (ERP)

The Centre for Democracy Foundation is the co-ordinator of the working group for negotiating chapters 2 and 19 established by the National Convention on the European Union (NCEU), and a signatory of the Platform for Monitoring the Implementation of the Economic Reform Programme (ERP) and the Employment and Social Policy Reform Programme (ESRP). As envisaged under the Platform, in October and November 2017 the Centre collected the views of key stakeholders (trade unions, employers, and NGOs) about the reforms planned in these two strategic documents. The following comments and proposals include findings and recommendations formulated in the course of monitoring of the ERP's implementation.

General comments and recommendations

I

In common with previous years, the Government failed to involve stakeholders in the design of structural reforms and their prioritisation when developing the 2018-2020 ERP. This shortcoming had already been noted in the European Commission's assessment, which stated that a 'public consultation was organised at short notice and at a late stage just before the adoption of the programme. Therefore, stakeholders could not influence the prioritisation or the content of reforms.



This reduces the ownership of the reforms and the potential for their successful implementation.’¹. The relevant line ministries were solely responsible for designing the reforms and setting their priorities, which has, amongst other issues, precluded the use of an inter-sectoral approach, as evidenced particularly in the areas of innovation, education, labour market, and social inclusion.

Recommendations

- ✓ Ensure timely involvement of the Social and Economic Council and non-governmental organisations (NGOs) in both designing and prioritising the reforms envisaged under the ERP.
- ✓ Apply an inter-sectoral approach to the situational analysis and design of structural reforms.

II

A general comment can be made with regard to the methodology and order of the ERP’s structural reforms for the areas of Employment and Labour Markets and Social Inclusion, Poverty Reduction, and Equal Opportunities. The two fields undeservedly occupy the final two positions in the list, which leaves the impression that these policies, crucially important for meeting the needs of most Serbians, are not considered pressing considerations. Re-positioning these areas and their associated structural measures is particularly justified given the increasing socialisation of the European Semester, in particular through the proclamation of the **European Pillar of Social Rights**, a set of principles that must be considered when setting the EU’s social and economic priorities.

Recommendations

- ✓ Link the areas of Employment and Labour Markets and Education with the area of Research, Development and Innovations, and the Digital Economy.

Education and Skills

Comment

The following challenges were identified in diagnostic section for the area of Education and Skills: ‘low coverage by early childhood education; inadequate capacity of the early childhood education system in terms of the number of children and institutional network; poor quality of primary education reflected in students’ limited ability to apply key knowledge and skills acquired; unregulated system of educational qualifications; mismatch between workforce qualifications and

¹ European Commission: *2017 Economic Reform Programmes of Albania, The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo**: The Commission’s Overview and Country Assessments; KC-BC-17-055-EN-N; available online at ec.europa.eu/info/business-economy-euro/economy-finance-and-euro-publications_en, p. 98.

needs of the labour market, and “brain drain””.² Moreover, the ERP’s diagnostic assessment claims that Serbia’s education system is ‘insufficiently inclusive, with underdeveloped capacity to respond to the educational needs of various vulnerable groups or provide positive action in support of enrolment of students from economically disadvantaged families’. Data are provided to illustrate most of these challenges. **Nevertheless, no corroborating data are included for the alleged disparity between workforce qualifications and the requirements of the labour market, cited in justification for one proposed structural reform.**

Only one structural reform is proposed in response to the very serious challenges in this key area for social cohesion and economic progress (16, ‘Labour Market Needs Oriented Qualifications’). This recommendation is designed to address the unregulated qualifications system and comes down to the creation of a regulatory and institutional framework for the creation of a National Qualifications Framework (NQF). However important the NQF may be as an ‘instrument for the classification of qualifications according to a set of criteria for specified levels of learning achieved, which aims to integrate and coordinate national qualifications subsystems and improve the transparency, access, progression and quality of qualifications in relation to the labour market and civil society’,³ **for qualifications to be oriented towards the needs of the labour market, those needs, both present and future, must first be assessed, and occupational standards must first be developed as a precondition for the introduction of qualifications standards.**

Recommendations

- ✓ Respond to challenges identified by defining objectives/activities to address the inadequate inclusiveness of the education system, low coverage by early childhood education, poor quality of primary education, etc.
- ✓ Amend the description of the structural reform to include the findings of relevant research into both present and future needs of the labour market; envisage an additional activity devoted to the creation of occupational standards as the basis for developing qualifications standards.
- ✓ Include a measure to support the linking of Structural Reform 13 (where a measure should be included to support innovation and the digital economy in the school system, rather than limiting this effort to collaboration between industry and academia, as currently envisaged under PSR 13) with the creation of preconditions for sustainable and high-quality jobs in the labour market (Employment and Labour Markets).

Employment and Labour Markets and Social Inclusion, Poverty Reduction, and Equal Opportunities

² 2018-2020 Economic Reform Programme, p. 100.

³ Official Journal of the European Union (2008): Recommendation of the European Parliament and of the Council of 23 April 2008 on the establishment of the European Qualifications Framework for lifelong learning (text with EEA relevance) (2008/C 111/01).

Comment

As in previous programming cycles, the diagnostic of the labour market is clearly oriented towards key indicators and supply-side factors whilst disregarding other key aspects responsible for low labour market participation (such as, for instance, labour demand and imbalance between supply and demand); this was commented on by the EC in its previous report.⁴ The ERP lists the following key challenges for the labour market: 'declining quality of the human capital due to deteriorating skills, self-confidence, and motivation; high youth and long-term unemployment; large proportion of the workforce in informal employment; expected increase in unemployment figures with the completion of privatisation and restructuring of state-owned and public-sector firms; inadequate capacity of the National Employment Service (NES) to provide appropriate services; and limited impact of active labour market policies (ALMPs)'.⁵ **The ERP does not recognise either the significantly lower employment rate for women, or their marked economic inactivity, as challenges.**

A number of activities are envisaged in response to these issues, including improvements to ALMPs (by monitoring and targeting them) and capacity-building for the NES, although none are linked explicitly with the challenges cited above. 'Hard-to-employ' persons (as defined in the National Employment Action Plan, or NEAP) make up the vast majority of the jobless registered by the NES. Targeting measures and profiling hard-to-employ persons are two activities that the ERP suggests ought to contribute to their greater employability, and, ultimately, employment. In view of the numbers of the hard-to-employ, the effectiveness and efficiency of this activity are questionable due to the limited reach of ALMPs (the 2018 NEAP envisages the inclusion in ALMPs of just 70 people more than in 2017). **It seems it would be more pertinent to assess the gross/net impact of each ALMP on employment and use those findings to develop policies and/or involve the hard-to-employ in the most efficient and effective of them. Poor capacity of the NES poses an additional challenge (with case workers facing high caseloads), which raises the question of whether there are sufficient resources to implement this activity.**

Even though more than one-fifth of all those in employment work in the shadow economy, no activity is envisaged in the area of Employment and Labour Markets to address this issue.

Structural reform planned in the area of Social Inclusion, Poverty Reduction, and Equal Opportunities affects only beneficiaries of financial social assistance, although Serbia has the highest poverty and social exclusion rates in Europe. Neither the diagnostic section nor the proposed activities connect

⁴ European Commission: *2017 Economic Reform Programmes of Albania, The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo*: The Commission's Overview and Country Assessments*; KC-BC-17-055-EN-N, available online at ec.europa.eu/info/business-economy-euro/economy-finance-and-euro-publications_en, p. 93.

⁵ 2018-2020 Economic Reform Programme, p. 103.

social exclusion with exclusion from the labour market: this is also evidenced by the ERP's failure to include any assessment of the impact of this structural reform on employment, or evaluate the associated gender issues, as was done with all other reforms.

In developing responses to challenges in this area, key priority ought to be accorded to eliminating obstacles to participation in the labour market by ensuring its unhindered operation, as well as by providing a social protection system.

Recommendations

- ✓ The scope and content of activities planned in the areas of Employment and Labour Markets and Social Inclusion, Poverty Reduction, and Equal Opportunities should reflect the magnitude of and connections between these issues and permit the elimination of the challenges identified.
- ✓ Define the creation of sustainable/quality jobs as an objective in the ERP and design structural reforms to achieve this goal.
- ✓ When designing employment and social inclusion measures, make use of EC employment guidelines that align principles of the European Pillar of Social Rights with the commitment to enhance the EU's competitiveness through investment, job creation, and social cohesion.
- ✓ Assess the social impact of structural reforms to eliminate key employment-related and social issues in collaboration with social partners (trade unions and employers) and civil society organisations.

On behalf of the Working Group Co-ordinator

N. Vučković

