

**The Role of Serbian Employers Association
in Youth Employment Promotion through
Better Partnership and Impact on Training
Institutions**

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1. Background

Among serious issues of many economies in transition are low competitiveness and productivity resulting in high unemployment, particularly among the youth. The most common reasons for this are:

(a) unfavourable business environment; (b) slow pace of economic reforms; (c) the mismatch between job seekers skills structure provided by educational and training institutions and actual demands of enterprises (d) lack of well educated and trained job applicants; and (b) outdated vocational education and training (VET) system.

The time lag between labour market signals and the enterprise quantitative and qualitative occupational and skills needs require stronger intervention from different labour market players, particularly, from employers' organisations, and better communications and cooperation among all social partners.

Before 1990s the state controlled economy dominated in Serbia maintained the public system of vocational and management training institutions, financed by central authorities. In 1990s, during transition to the market economy many of VET institutions had been liquidated. Unfortunately, most of them have not been replaced by effective private education and training providers to fill the gap.

In such conditions the role of employers' organisations has become of critical importance to speed up the process of youth development and linking closely vocational training institutions outputs to enterprise needs, particularly for SME. These needs are very dynamic and are changing much faster than existing vocational education and training system reacts in adjusting their institutions curricula, training facilities and equipment, teaching methods and techniques. The most of the VET institutions are still working under central authorities, reflecting their slowness in change management and decision making.

The purpose of this research was to understand the status, problems and the future needs of employers' organisations in strengthening their role in advancing the youth employment through partnership and impact on training institutions, and contribute to improving the fit between occupations and skills demand and supply.

2. Research methods

The main research methods were desk study of numerous publications, official documents, and research papers of various national and international organizations and project documents. But the most revealing were information and opinions obtained from more than twenty top-administrators and managers, officials and experts from international organizations, government agencies and ministries, employers' organizations, educational and training institutions and enterprise owners and managers including their focus group discussion.

The Serbian Association of Employers (SAE) with its new recently elected leadership has done an excellent job in preparing the visits to the relevant ministries and state agencies dealing with economic and social development as well as with youth employment promotion and vocational training and development institutions and industrial enterprises. The officials from the ILO headquarters (Geneva), the ILO

Regional Office in Budapest and the ILO correspondent in Belgrade provided valuable insights into situation and advices concerning this research

3. Country profile

Serbia is one of the five independent countries that have emerged from disintegration of former Yugoslavia in 1991-92. In June 1991 Slovenia and Croatia declared their independence. Macedonia withdrew from Yugoslavia after its independence referendum in September 1991, followed by Bosnia and Herzegovina in 1992, after its independence referendum. Following the secession of the other Yugoslav republics, Serbia and Montenegro adopted the Constitution of the Federal Republic of Yugoslavia (FRY) on 27 April 1992, and declared themselves a new state.

Throughout the 1990s Serbia's development was marked by armed conflicts, international isolation, political instability and economic turmoil. Prior to the break-up of the Socialist Republic of Yugoslavia (SRY), trade among the republics constituted over 40 percent of gross domestic product (GDP). The collapse of the common market and international sanctions compromised the Yugoslav traded sector and led to a massive contraction of industry. Industrial activity fell by 50 percent during the first half of the 1990s and per capita GDP plummeted to the 1969 level. Since mid-1990s output growth has been increasing, with the exception of 1999 when GDP fell by 18 percentage points due to the Kosovo conflict and the NATO air strikes.

On 14 March 2002, following months of negotiations between the two republics and mediation by EU, the federal and republican level governments signed the 'Belgrade Agreement', forming a new, looser union between Serbia and Montenegro. Under the terms of the Constitutional Charter either republic could hold a referendum on independence after three years. Montenegro chose to exercise this right and held a referendum on 21 May 2006: 55.5% of those who voted did so in favour of independence.

The new government foreign policy priority is EU integration. However, Serbian government continues to insist that Serbia will not recognise Kosovo's independence, even if recognition were a condition for Serbia's EU membership, through in much softer language than before. The government has persisted in its pursuit of a ruling by the UN International Court of Justice (ICJ) regarding Kosovo independence declaration. The recent decision by EU foreign ministers not to activate the trade-related parts of Serbia stabilisation and association agreement (SAA), following the Serbian authorities arrest in July of Radovan Karadzic, a former Bosnian Serb leader, was a heavy blow. It remains unclear whether the Dutch and Belgian governments, which opposed unfreezing the SAA, will soften their stance. In any case, it is unlikely that the EU would grant Serbia candidate status as long as Ratko Mladic, the former military commander of the Bosnian Serbs remains at large.

Today, the Republic of Serbia, with pro-EU oriented government, has borders with Hungary, Bosnia and Herzegovina, Montenegro, Croatia, Romania, Bulgaria, and Kosovo and Macedonia with the area of 88,361 sq. km. It is the democratic republic based on the new Serbian constitution of November 10th 2006. Its population is 7.4 m with trend to reducing from 7.5 m in 2004 to 7.3 m in 2010 (forecast). The GDP (in US\$, PPP) per head is growing from 8,321 in 2004 to 10,442 in 2007 and to 11,502 in 2008 (forecast before September global financial crises).

Prior to the 1990s, in Serbia living standards were comparatively high relative to most former socialist economies. The collapse of economic activities and the rise in open and hidden unemployment led to an impoverishment of the population. Socio-economic conditions were also exacerbated by the influx of nearly 700,000 displaced people as a consequence of the war. The reduction in income-generating opportunities in the formal economy and the poor enforcement of tax and labour regulations encouraged the expansion of informal economy, which became an important safety net for many people.

Serbia belongs to the middle income countries, while a Human Development Index of 0.772 places it in the category of upper-medium developed countries. The recent upward trend in economic growth resulted in poverty reduction. The population below poverty line has been decreased from 8.8% in 2006 to 6.6% in 2007. However, it should be emphasized that poverty in Serbia is more widespread than these figures indicate, since the data do not fully cover refugees, internally displaced persons and the Roma population. The groups more likely to be poor are the rural population, the poorly educated, the unemployed, and workers in the informal economy, elderly persons, children and large families.

The most important industries in Serbia are agriculture, machine building, metallurgy, mining, consumer goods, electronics, pharmaceuticals, petroleum products and chemicals. Major trading partners: Russia, Italy, Germany, France, the former Republics of Yugoslavia.

4. Overview of economic conditions and trends

In 2001, the Serbian government launched an economic reform programme aimed at accelerating the transition to a market economy. The share of the private sector in GDP increased from 40% in 2001 to 55% in 2005, in employment (from 17 per cent to 54 per cent respectively) and in value added (from 18 per cent to 58 per cent) as a result of economic restructuring, privatisation and improved business environment. Since then, the economy has been expanded and living standards have been improved. The reform 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.

The real GDP, grew in the period 2001-2006 at an annual rate of 5.6%, and experienced a six-fold increase over five years. In 2007 it grew by 7.5% (estimates), and in it grew 7.3% in the first half of 2008. However, it anticipated a further slowdown in the second half of 2008, in view of the increasingly unfavourable external environment, and it is estimated that in 2008 it will be down to 6.5%, partly because of a weak second quarter for agriculture, which grew by just 3.4% year on year, compared with 6.4% in the first quarter. For 2009 it estimated that the real GDP growth will be 6.0%.

Foreign Direct Investments increased substantially, but has mostly been related to the purchase of state- and socially-owned enterprises. An external debt of 68% of GDP places Serbia in the group of medium- indebted countries. The main source of GDP growth was the services sector, which experienced an annual increase of about 7%

over the period. Trade, transport and financial services most contributed the growth, with increases of 15%, 13% and 8%, respectively.

Despite these positive results, some inherited imbalances continue to affect the economic performance of the country. Output growth did not revert into employment creation, overall employment continued to decline and unemployment reached 21% in 2006 and in 2007 – 18.1%. The current account deficit remains high (12 per cent of GDP), reflecting the low level of domestic savings due to the low confidence in national banks. Sizable corporate losses still remain in the non-financial sector, due to the weak governance and soft-budget constrains in state-enterprises.

The appreciation of the national currency – due to a reduction of foreign exchange rate interventions and strong capital inflows—and a slow down of international oil prices helped to reduce inflation from 17.5% in 2005 to 10.1 in 2008. The monetary policy will continue to focus on controlling rising inflationary pressures. In 2008 and 2009 it is expected that inflation will be down to 9.5% and 6.5% respectively.

But the September 2008 global financial crises could change these expectations. There are signs that headline inflationary pressures may have peaked, with retail price inflation decelerating again in August, to 10.5% year on year and will be in average of 10.9% in 2008. This reflected falling global oil prices and a good harvest in Serbia. Generally, is expected that inflationary pressures will remain strong. This reflects continued rapid wage growth and high inflationary expectations; some loosening of fiscal policy; the oversized public sector; the existence of monopolies in parts of the private sector; and the need for further increases in administered prices.

The structure of GDP changed significantly between 2000 and 2007. The industry sector decreased its contribution to GDP (from 35% to below 30%) and to employment (from 36% to 29%), while the service sector expanded (from 49% to 57% in GDP and from 39% to 52% in employment). Most of Serbia's leading service sectors continued to post strong growth in the second quarter. Transport and communications grew by 17.6% year on year, and financial intermediation by 16%. However, growth of wholesale and retail trade slowed to 5.8% year on year, from 11.4% in the first quarter. Construction expanded by 7.9% year on year, up from 4.3% in the first three months of 2008.

Over the same period, the agricultural sector contribution to GDP remained stable (around 15%), although the decline in number of workers, suggests an increase in productivity. The competitiveness of the agricultural sector also improved, with an increase in exports of approximately 30% a year from 2003 to 2006.

Industry picked up in July 2008 following a weak second quarter, recording 5.3% year-on-year growth compared with 3.7% growth in the whole 2007. In the first seven months of 2008 total industrial output grew by 4.2% year on year, with mining, manufacturing and utilities expanding at similar rates. Output in manufacturing was driven by a few sectors such as machines, metal products and chemicals, producing largely capital and intermediate goods for export, whereas the consumer goods sector continued to contract.

Exports had a strong start in 2008, and continue to be dominated by capital and intermediate goods, which accounted for 66% of total exports in January-July. These

originate primarily in a few manufacturing industries that have expanded strongly in 2008, such as basic metals (23% of total exports), foodstuffs (13%), chemicals (10%), rubber and plastics (7%), and machinery and equipment (6%). However, imports expanded at a rate of 43% reflecting strong demands for growth and rising prices of food and energy.

The broad direction of policy will be with the emphasis on privatization, structural reform and improving investment climate. Fiscal policy will remain broadly prudent, although budget projections will still be sensitive to assumption about privatization revenue. The share of the private sector in GDP increased from 40% in 2001 to 55% in 2005 as a result of economic restructuring, privatisation and improved business environment. In the last five years, the number of small and medium sized enterprises (SMEs) has been increasing by almost 30%.

The enacted *Law on Business Registration* abolished a number of administrative and legislative barriers to entry and resulted in a sharp increase in the number of businesses recorded —between 2005 and the first half of 2006, some 15,489 new enterprises were established and 23,604 new shops were opened. In the period 2001-2005, the private sector increased its share in the overall number of active enterprises (from 86% in 2001 to 91% in 2005), in employment (from 17% to 54% respectively) and in value added (from 18% to 58%). Approximately 83% percent of the value added in this period was generated in the private sector.

Serbia made significant progresses in improving the business climate, competition policy and small-scale privatization: two recent surveys report that Serbia improved its performance in the area of starting a new business and labour market regulations. Still the rank of Serbia in rigidity of the employment for 2007 was 63 among 131 countries, however in terms of difficulty of hiring and firing Serbia, levelled for at 25, well below the indexes of other CEE countries as it was assessed by the *Global Competitiveness Report 2007-2008*.

The *Poverty Reduction Strategy* (PRS) identified the predominance of the youngest age group in overall unemployment as an issue of particular concern. In the field of employment, the priority set by the PRS is improving the educational and qualification structure of the unemployed young people as well as increasing employment opportunities for vulnerable groups. Against this backdrop, a number of key policy areas are being reformed under the mandates of the respective ministries.

The *National Sustainable Development Strategy* (2008-2013) emphasizes macro-economic stabilization, the promotion of SMEs and FDIs, increased investment in human resources and in the adaptability of the labour force, as well as the reduction of regional disparities and the protection of the environment as key policy priorities to achieve sustainable economic growth accompanied by social development. To reduce regional disparities the *National Sustainable Development Strategy* proposes public-private partnerships to increase the quantity and quality of infrastructure and human capital as well as targeted programmes to increase the qualifications level of the labour force in the most disadvantaged districts and municipalities.

5. Youth labour market picture

Despite some progress in economic and political reforms that have begun to address the problems of poverty and social exclusion, their impact on overall employment and youth employment may take a while to materialize. In the last three years only negligible changes can be detected on the main labour market indicators. Output growth did not revert into employment creation, overall unemployment continued to be among the highest in Europe. Unemployment rate in Serbia has declined slightly from 21.8% in 2005 to 18.8% in 2007 and still remains the highest in the region. Also, long-term unemployment is extremely high: approximately 80% of unemployed in 2006 were jobless for a year or more.

Though there was the GDP growth in real terms, employment dropped by almost 3 per cent from 2000 to 2006. Over the same period, employment in the private sector increased by 23 per cent, while employment in the private, non-agricultural sector rose by 70 per cent. The increase of private sector employment, however, was not sufficient to compensate the decline in employment in socially-owned enterprises, due to the relatively low share of private non-agricultural employment in overall employment.

The decline in employment was predominantly the result of restructuring and privatization in state- and socially-owned enterprises, whose workforce decreased by around 30% since 2001. A share of employment in the informal economy is quite significant and constituted 35% of total employment in Serbia in 2007. Approximately 80% of young workers are employed in the private sector.

As to the youth employment only 18.7% of youth are employed compared to 51% of the working age population. Approximately 34% of youth with tertiary education are employed compared to only 9% for young people with primary education or less. However, university graduates also have quite high unemployment.

Young workers are over-represented in the service sector. Nearly 60% of all youth employment was in services, while for adults the share was 50%. Most young workers had service-type of occupations. Young urban people mainly work in services (75%) and only a negligible share is engaged in agriculture (2%). This could be explained by faster growth of services sector than other industries, specific requirements of services for more flexibility in behaviour, better learning capabilities and better knowledge in communication technology demanded today by many services than adults have.

Around 77% of young employed are wage employees. The share of young self-employed in overall youth employment is only 9% compared to 20% of adults. A number of social and cultural reasons may contribute to explain such low rates. First, most young people in Serbia come from families with no entrepreneurial background, since, until recently, most employment was concentrated in state- or socially-owned enterprises. Second, the unfavourable regulatory framework inherited from the past, the lack of start-up financing and poorly developed business advisory services did not favour youth entrepreneurship in Serbia. Approximately 22% were working on a part-time basis because no full-time job was available as indicated in surveys. Around 38% of young workers had temporary jobs, twice as much than adult workers.

Though in 2007 informal employment in Serbia accounted for 35% of total employment, however, the informality rate for youth increased substantially (from 41% in 2002 to 50% in 2007) mainly due to the relative absence of remunerative jobs in the formal economy. Engagement in informal economy in Serbia is associated with low earnings, poverty and vulnerability. The high informality among young workers relates to human and financial resources wastage, forgone productivity and development. Young informal workers in Serbia also experience lack of social protection, security, and representations, the increased risk of unemployment, inactivity and poverty. Youth unemployment remains a serious challenge for Serbia, as nearly half of the youth labour force is unemployed. Among young people, more young women were unemployed compared to men (52% and 45%).

A few important factors contribute to such high rate of unemployment among educated youth. The economic reforms have been implemented too slowly. Tax policy does not facilitate new job creation, particularly in SMEs and self-employment. There is also labour market mismatches: the supply of educated youth exceeded demand and the competencies acquired in higher education do not correspond to the needs of the labour market. It is extremely difficult to find on the labour market technicians and engineers, metal processing and construction workers.

Rigid curricula and outdated teaching methods are often cited as constraints of the Serbian post-secondary education system, which is ill-suited to the needs of the economy. In accordance with the survey, about 26% of unemployed youth who refused a job offer in last 12 months did so because the wage offered was unsatisfactory. Other reasons mentioned for refusing job offers were: the job was not suitable for the applicant's qualification; working hours were not acceptable; the type of job was not suitable; the workplace was too far from the place of residence.

Companies do not employ young people without experience since most of them do not have possibilities to train them. Also, for many small and medium companies to compete on the labour market is more preferable options than to invest in HRD with high level of unemployed youth. There are also complaints from employers that young job applicants are has too much inertness, lack of initiative, unable to make simple decisions, have low motivation and ability to learn new things, and low work ethics. Many of them have mentality of prolong adolescence, staying for too long with parents and depending upon them.

A serious problem for Serbian economy and for young people themselves is brain drain. The Serbian rank in brain drain, in accordance with the Global Competitiveness Report 2007-2008, was 126, among the highest in the world. Between 800,000 and 1,000,000 people are working abroad. And the most of them are well trained young people because they could not find a job with their educational background and training with the decent conditions and wages. There is also a negative shift in the brain-drain pattern: in 80-90th the brain-drain has been mostly at the expense of low educated and low skilled people. Today the pattern is completely changed: the most educated and trained young people, including those with university degrees, migrate abroad.

Youth unemployment in Serbia, like overall unemployment, is predominantly long-term. In 2005, the incidence of youth long-term unemployment was 68%. Young

jobseekers with low educational attainment, particularly the long-term unemployed, face low-skill jobs and, are less likely to escape unemployment.

6. Labour market policies for youth employment promotion

The key challenges of the youth employment policy in Serbia include: (a) moving employment from the informal to the formal economy and reducing the duration of unemployment by improving the absorption capacity of the formal labour market; (b) increasing the overall level of employment and participation for young people and (c) improving the quality of jobs. Meeting these challenges will require synchronized policies in the areas of labour legislation, severance and unemployment benefits and active labour market measures as well as the reforms in macroeconomic policy including tax, privatization and SME development as well as education and training reforms.

The *National Employment Strategy* encompasses three goals – full employment, improving quality and productivity of labour and improving labour market inclusion. The Strategy contains the part dealing with promoting youth employment, self-employment and combating unemployment through:

- Active labour market programmes;
- The provision of incentives for enterprises to recruit young people;
- Setting up career guidance and counselling centres, and
- Employment services to the long-term unemployed youth

Though most of planned measures were implemented, their impact on the youth labour market remains minor: in 2006 the youth employment rate increased only by less than 1% and in 2007 it again decreased.

The *National Employment Service* (NES) offers a number of active labour market programmes, financed by the Labour Fund. They include advisory and mediation services (counselling, vocational guidance, vacancy notification and job fairs), training and retraining, special employment programmes for the disabled and entrepreneurship assistance.

An employment fair is one of the measures of the labour market policy conducted by National Employment Services (NES). These fairs put employers and individuals looking for a job into direct contacts. In each fair NES has its own stand informing visitors about its services. It accumulated good experience in organizing job fairs. It selects potential candidates for employment and sends them to different fairs to meet employers who could be interested to face these people. In the first part of 2008 there were 30 employment fairs with participation of 932 employers and 41,610 job seekers. There are plans for 2008 to involve 1500 employers and 45,000 job seekers to meet each other during the fairs. For example, only three recent fairs in regions provided jobs for 46 job seekers, mostly for youth with workers professions

The training and re-training programmes contracted by NES normally last up to three months and include: (a) basic training designed to improve the skills of young people with little or no education; (b) training for current and future skill needs; and (c) employer-focused training in response to enterprises needs. But the tracking of programme participants, and consequently the evaluation of programme effectiveness, is still inadequate. Moreover, lack of funding and staffing problems erodes effectiveness of active labour market policies. The personnel for career counselling is

very small and has only one councillor for 2000 people, while in other countries this ration is about 1:30

At present Ministry of Labour jointly with ILO is working on developing the Action Plan for Employment Promotion (2008 – 2010). There are also foreign donors participation in youth employment promotion such as recently finalized SIDA project, an offer by Italian government about EUR1 million for such purpose and other initiatives.

Generally, the labour market information on structural and long term unemployment, misbalance between labour supply and demands, mobility of the labour force, the occupational and skills structure of job seekers and unemployed youth is still very poor. Without such information it would difficult to make important policy decision by all social partners.

7. National Youth Strategy: the employment promotion part

The development of the National Youth Strategy (NYS) approved in May 2008 could be considered as a first step towards a systematic solution to the problems of youth development including its education and training, employment promotion, and its position on the labour market. It has become one of the most important priorities of the Ministry of Youth and Sport and, hopefully, the government as well.

Among eleven objectives of this Strategy the following four concerned with youth employment promotion:

- To establish a system of youth information.
- To develop an open, equitable, efficient and justifiable system of formal and non-formal education available to all young people.
- To encourage and stimulate all forms of employment, self-employment and youth entrepreneurship
- To empower young people for initiatives and activities that are in line with sustainable development and a healthy environment

It should be noticed that all eleven strategic objectives look like activities and slogans. Not a single objective is sufficiently specific and measurable, which is a dream for bureaucrats. That could negatively result in the quality of their implementation and difficulties in assessment later on. At the same, the ideas, positions and arguments of the Strategy positions are excellent.

In 2007, in Serbia, the total public expenditure on education was only 3.5% of the GDP which is significantly lower than the recommended 6% standard in OECD countries. 3.4% of the population in Serbia is illiterate and 22.3% have not even finished elementary school. Moreover, the assessment of quality of educational results indicates that the acquired knowledge and skills at the end of primary education are inadequate. As mentioned in the Global Competitiveness Report 2007-2008, Serbia by enrolment into secondary schools possess 85th place, by quality of tertiary education – 101, and by Internet access to schools – 89th place among 131 countries.

Inadequate qualifications represent the main reason for youth unemployment. In 2006, by NES assessment, 30% of all unemployed young people were unqualified or half-qualified, 62% have a third or fourth degree of secondary school, while 8.6% of young

people with higher education have inadequate educational profiles for which there is little demands in the labour market. 12.7% of young people with higher education do not participate in the labour force.

There should be a radical reform of the education system which must take into account the employers demand and introducing more flexibility into educational system. An effective employment policy is only possible through a close cooperation between the VET system and the labour market institutions, particularly employers' organizations. Career guidance and occupational counselling of young people should include helping young them in schools and faculties in selecting the vocational education and profession, and further training.

During 2006, a new tax incentive policy has been introduced with the aim of increasing youth employment. The Revised Compulsory Social Security Funding Act introduced tax reliefs for these categories of young people below 30 years old: unemployed persons who get a first job as trainees, persons who were already employed and who were registered within NES at least three months before the new employment, and persons with disabilities.

Promotion of entrepreneurship among the youth is an important way not only to increase youth employment, but also stimulate the development of such important features like initiative, decision making, confidence, creativity and innovation. Therefore, it is necessary to create special programs for young people that would promote youth entrepreneurship and SME development.

The National Youth Strategy also emphasizes an importance to create an effective information system which would provide update and systematic information about occupations and skills required at the labour market, working conditions, career prospects, and other important information with easy access by all. For this it is proposed to set up an integral reporting computer-based system about free jobs locally and regionally for young people.

The NYS also raises issues of developing standards for the formal as well as for non formal education systems (institutions, tutorial staff, ways of managing and financing), educational processes, goals and educational outcomes, general and professional competences. The development of the national guidelines referring to indicators for the quality of education, its procedures and instruments, accreditation system for vocational education and training institutions would be of critical importance.

8. SME and entrepreneurship developing oriented on youth

The SMEs is a pillar for promoting youth employment. In Serbia the SME sector is the most viable, profitable and competitive part of the economy. If in 2007 large companies announced net loss, SMEs were a net profit-making with profitability at 38.6%. During 2004 – 2007, SME accounted about 99% of the number of economic entities, 60% of employment, and 44% of total export. In 2007 SME recruited 36,000 new employees. About 300 thousands SMEs are involved in entrepreneurial activities with employment of almost 907,000 persons and generate 58.3% of GVA of the non-financial sector. In 2007 they provided 67.6% of the total turnover of economy. In

2007, the real growth of GVA in the SME sector was at 21.6%, while in large companies only 14.9%.

The Strategy for the Development of SME and Entrepreneurship in the Republic of Serbia (2003-2008) developed by the Ministry of Economy and Regional Development, aims at promoting employment-generating economic sectors, facilitating access to financial and non-financial services and reducing the volume of the informal economy. The Strategy envisages an increase of the number of SME up to 400,000 and the creation of one million net new jobs by the end of 2008.

As depicted by the SME Policy Index, Serbian procedures in certain SME development areas – business registration, legislation, taxation and financial support – have improved considerably. At the same time the state support of SME development is not adequate yet. The measures to improve SMEs conditions are still relatively limited and Serbia scores lower than other countries in skills availability, entrepreneurship education, and quality assurance. There is also a problem with the business start-up: 23 days and 20 procedures are necessary for starting a business in Serbia, 204 days to obtain different licensees and permits, 12 days to import in Serbia and 14 days to export from Serbia. The number of annual payment and taxes is 66 (in Sweden – 2).

The level of knowledge and abilities of entrepreneurs is still lagging behinds needs for creating a competitive and export-oriented SME sector, and investments are at unsatisfactory level. If large companies allocate 10.8% of turnover for investments, the SME sector – only 5.5%. Small companies do not have sufficient money and expertise for training and their expenditures for training and education of their staff should be compensated by special governmental schemes.

The fast development of SME and entrepreneurship in 2008 requires fostering innovation activity in companies and support programmes for productivity improvement, boosting competitiveness, strengthening the export orientation, promotion of business cooperation between enterprises, including incubators and clusters development (see Box1)

Box 1: NOSIC – Novi Sad Incubator Centre

It is a project supported by GTZ – a German Agency for Technical Cooperation with objective to set up innovation incubator as a basis for science-technological park, which would provide conditions and facilities for the entrepreneurship development based on R&D, as well as foundation for the new enterprises.

35 successful entrepreneurs operate within the NOSIC, which employ more than 850 people, generate turnover of EUR 19 million and export of over 50% of the production value. Their businesses are in the areas of outsourced to them R&D activities, specialized software development, communication and automatic control systems, electric power appliances and equipment, electronics and Internet programmes.

NOSIC actively cooperate with Technology Transfer Centre founded within the frame of the TEMPUS project and with the Faculty of Political Sciences which provided premises and equipment for incubator-based services over the past 15 years, as well as talented students to work with the incubator.

In response to these problems, 20 business centres have been established in local employment offices. In 2005 information points have been used by more than 16,000 people, 25% of whom were youth. Government has included entrepreneurship modules into university courses (business administration and economy courses) and is preparing a Strategy on Entrepreneurial Education. Other support measures for SME development have been implemented. Some of them are:

Republic Agency for Development of SME significantly expanded its activities aimed at creation of strategic policies vital for this sector, realization of concrete programmes for supporting start-ups, existing companies, associations of entrepreneurs, strengthening the process of internalization of this sector and intensification of its promotion. 14 agencies for SME development in the regions are in the process of opening and some are in operation.

Since 2007 *NES Business Centers* have introduced integrated procedures of working with unemployed youth that are interested in receiving self-employment subsidy. The number of persons who benefited from centers services is on the rise and in 2007 it was about 28 thousands, 38% of them were women. Some progress was made in vocational education through introduction of the entrepreneurship subjects into curricula 2007/2008 for certain profiles and projects aimed at extension of entrepreneurial education.

Agency for registering business is making a rapid progress. Since February 2008 the deadline for registration of entrepreneurs was reduced, and implementation of the procedure for electronic applications has been initiated.

The Fund for Development of the Republic of Serbia approved 13.6 billions dinars for 2,848 programmes which would create 16,732 new jobs through SME crediting. Other credits schemes for SME development both from national and foreign sources has been set up as well.

The taxation system is still a great burden to SMEs; too heavy procedures related to defrayment of tax liabilities are unresolved yet. In order to pay tax liabilities Serbian employers spent 279 hours for 66 procedures, while the average for OECD countries is 183 hours for 15 procedures

With the adoption of *Secondary Vocational Education Reform Strategy*, entrepreneurship was included in five key employability competences in 2007/2008 school year. An entrepreneur teacher training programme was accredited on the national level. Pilot projects on strengthening the entrepreneurial skills in secondary schools have been continued. The EAR/CARDS project of entrepreneurial education is carried out in experimental classes of secondary vocational training schools. GTZ in cooperation with the Ministry of Education included 32 schools of economics into the educational programmes for new occupational profiles, which based on discussion with employers and enterprises managers on present and expected needs for new professions and their skills profiles.

The project of *Youth Entrepreneurship* implemented with the partnership from the Ministry of Education, Business Innovation Programme (Norway) and the Regional Centre for SME development resulted in the foundation of 86 student enterprises in

2006/2007. The *Youth Entrepreneurship Fair* was held for the fifth time where the best business ideas were awarded

The *Republic Agency for SME and Entrepreneurship Development* initiated new programmes for particular target groups, providing their accessibility to Internet users. Also with donor support, the Agency was devoted to strengthening its own capacity. Special educational programmes were created for training of trainers in different areas and for different levels and sectors.

Over 2007, the creation of the database of teachers for the incubation stage of training within the *Norwegian project "National programme for business incubators creation"* was initiated. A business support centre for incubator was established. The *Japanese sponsors* organized training to strengthen capacities of republic and regional agencies and centers to improve employee's mobility. Other programmes and projects dealing with youth employment promotion, entrepreneurship and SME development had been initiated by Spanish, Swedish and other donors.

The need to improve forms and standards of businesses support services put special emphasis on adequate training and development of future entrepreneurs, supported by the following documents: The national Strategy on Youth; National Economic Development Strategy; Poverty Reduction Strategy; Programme for Stimulation of SME and Entrepreneurship Development; Programme for Business Incubators and Clusters (see Box 2)

Unfortunately the system of statistical monitoring of activities dealing with youth entrepreneurs by different institutions and projects does not exist in Serbia yet and it is impossible to provide the objective pictures of youth vocational education in the area of entrepreneurship. A dialogue between social partners, including employers' organizations, on the SME development and training of their personnel has not been established yet.

The Serbian economy being more and more export driven is shifting from unskilled and labour-intensive processes to value-adding jobs. These shifts would succeed only if accompanied by an increase in quantity and quality of the skills of the workforce.

The outdated education system and its lack of adaptability to the changing market needs is broadly recognized as an impediment to the development of an entrepreneurial, and adaptable well educated labour force.

Box 2: New set of support measures for business start-ups

The Ministry of Economy and Regional Development with participation of Development Fund for SME Development and its regional network announced a competition for granting loans for start-ups without security and start-up loans for legal entities.

The goals of this initiative were: to increase number of SME and diversification of economic structures by sector, region and size of enterprises; creation of new productive jobs, and create conditions for more balanced regional development. These measures enable potential young entrepreneurs obtain all necessary information and advice as well as expert assistance, attend the training to acquire basis entrepreneurial knowledge and skills and then to apply for loans.

The interest rate of the loan is very favorable – just 1% with a pay-off period from 3 to 5 years, and with one year grace period. The amount of loan is between EUR5,000 and 15,000 for entrepreneurs and EUR5,000 to 30,000 for legal entities. The possibility of using pledge of equipment as loan security was introduced for the first time, which aroused a lot of interests from potential entrepreneurs.

The main tasks of this scheme is to provide stimulating borrowing conditions for business start-ups, non-financial support to prepare for competition with local firms and to monitor the operations of companies obtained the loans.

The most important activities under this scheme are intensive promotion of credit lines in 160 municipalities of Serbia, develop and implement the training of entrepreneurs, assisting in business plan development. It has been already organized 64 training for 1307 start-ups entrepreneurs in 17 locations around Serbia. Regional offices of Agency for SME development collected 1,138 applications for loans and briefed about 3500 persons interested in getting loans. 1507 loans have been approved.

As a result, 1507 new development programmes for 980 shops and 527 enterprises were financed with the budget around EUR26 millions, 5,327 new jobs created and near 1300 young people competed entrepreneurial training and were given opportunity to discuss their business ideas before opening the business.

9. Vocation education system: readiness for new challenges

The education system in Serbia is characterised by high drop-outs rates, lack of qualification and accreditation system, poorly developed adult education and training and difficulties in managing decentralisation drives. There is also a general lack of quality training provision for redundant and unemployed people. About 40% of unemployed people are without any qualification, while the Labour Code provides for rights for young people to have education and training, including apprentice to get work experience after formal education. The most important provisions promoting youth professional education are sufficiently reflected in the labour legislation. But implementation is another story.

Reliable data on the quality of education in Serbia is incomplete, but even available facts give rise to concerns. The misfit between educational outcomes and labour market needs are in a great degree responsible for the poor employment performance of young people in Serbia.

One cause of the low overall educational attainment is the performance of the VET system. It suffers from lack of funding, low popularity among students and parents, obsolete equipment, narrow and early specialization approaches, poorly qualified teaching force and lack of labour market relevance. In one of the VET Centres visited, over 50% of the VET incomes (including the taxes on new equipment provided by sponsors, earning from the payments, etc., goes for taxes instead of putting this money into training facilities, programme and training staff development. Serbian VET system and young labour force education attainment is behind other CEET countries. The Global Competitiveness Report 2007-2008 gives the quality of education and training in Serbia 75 place.

There are a lot complaints from different quarters, particularly from employers, concerning the quality of programmes and curricula. The serious mismatch between VET “outputs” and the enterprise requirements is partly because of very poor communications between VET institutions and employers. Some schools still produce people with dactylographic skills while everybody in the business today use computers.

General education schools do not provide people even with acceptable employability skills important before entering VET system. Vocational schools are under-funded, have old equipment and provide narrow and early specialization, and their teachers generally lack up-to-date technical and teaching skills. The quality of educational programmes is greatly varied since the mechanisms for issuing the licenses and certificates for trainers and VET institutions, the models and approaches to the training needs assessment and the quality of teaching are not based on assessments by direct users.

There are also problems with training methods and teachers’ competences – both are outdated in a great degree. Training of trainers is extremely rare, weak and irregular, except for teachers from the formal general education institutions.

Among the most important complaints are very poor practical skills of graduates from VET schools. Lack of problem solving skills and ability to deal with the real life situations, lack of entrepreneurship, inadequate practical technical skills, combined with a limited capacity to apply given techniques, are often part of the criticism. VET provides too much theoretical and conceptual knowledge and almost zero practical skills to be used immediately on the job without retraining. For example, in one agricultural company 10 graduates from agricultural faculty during the test could not identify any simple grasses that grow in Serbia. Young people after vocational training are not prepared to do practical jobs and even afraid to approach the modern equipment, which they have never seen before.

As it was mentioned by President of SAE, employers would like to provide more opportunities for youth practical learning at the enterprises. It would facilitate getting more practical skills and awareness of real working conditions and life, and also

enables managers to watch youth at their work and selecting the best of them to propose a job later on.

Some companies would be prepared to sign cooperation contracts with local VET institutions to arrange practical work and learning for their students during certain period. Being aware of this problem, companies are trying to set up their own training centres, but there is a problem with certification and recognition.

In Serbia, most companies do not provide internships and on-the-job training. Firms are investing too little in training, given the needs to speed up the transition. The proportion of companies in Serbia offering training to their employees is falling to less than 40% in large companies and virtually no training in small and medium ones. Global Competitiveness Report gives Serbian companies by their extent and quality of staff training 122 place. The training programmes offered by enterprises benefit only a limited number of workers. The new law will provide certain stimulus for employers through either full or partly compensation for expenditures spent for training and development.

One of the major problems is the old system of classification of occupations which do not correspond to reality anymore. For the last 5 years the occupations have been disintegrated into many narrow professions and disciplines. Employers need more broad set of skills within the occupation to improve internal mobility of the labour force. This constraint affects the education and training system related to certification, quality control as well as rating VET institutions. Courses offered by training providers usually do not lead to a vocational qualification recognized in the labour market. Thus, enterprises looking for external training for their workers as well as the NES contracting out training have no guidance on the quality of training offers.

The vocational education standards has not been developed as well, no key competences models accepted by all parties exists. The assessment of the quality of education and training should not be by subjects and hours of learning, but by achievements and ability to do (not just knowledge). There is some resistance in introducing competence models in the vocational education schools since it would require the dramatic change in schools structures, teaching methods, curricula itself and qualification of the staff.

Also, it is not clear who should deal with standards developing for training evaluation and certification of VET schools. There is no clear structure for that yet. There should be special network with the leading role of employers associations to deal with the standards, occupational classification as well as the quality assessment. The new legislation provides the room for introduction of the accreditation of VET institutions to make them attractive to the labour and educational markets. The country is now in the processes of developing new occupation classification. SAE and NES are trying to play a leading role in development of such classification. But it is not clear it would be finalised

The recent EFT (Turin) in its report identified the following main obstacles for further Education and VET reforms in Serbia:

Low priority given to education and VET by government and employers.

There is lack of recognition that human development is a key requirement for the future. Investments in education and training are still very low.

Inappropriate and outdated schemes VET governance

Inter-ministerial coordination, cooperation between administrative layers, decentralization, and partnership at all levels are poor. The dominant role taken by Ministry of Education in on-going reforms, often in isolation and without proper consultation with other partners is damaging as well. There is a lack of information exchange between different decision-makers and transparency which allow arbitrary decisions in the interests of certain state agencies.

Sustainability issues in the context of the fragmented donor assistance

Some programmes are beyond the capacity of country for absorbing the experience and spreading it around the country; too many programmes are not properly coordinated and focused. The development of professional networks and partnerships, VET centers or agencies should improve sustainability and focus the funds to the most important areas

The following challenges in improving the VET system are:

- Making HRD, education and training high priority in the overall agenda of development
- Ensuring a well-functioning and well-steered VET system flexible enough to adapt to fast changing market needs
- Modernizing VET governance based on decentralization
- Strengthening the role of employers (SAE) in all most important decisions concerning the development and operation of VET

Many of the above ideas have been reflected also in two important documents: *The Strategy of Adult Education Development in Serbia for 2007 – 2009* and *The Strategy for the Development of Vocational Education and Training in the Republic of Serbia (2007)*. There are a lot of rooms and provisions in both strategies for social dialogue and the strengthening the role of SAE participation.

10. The SAE role in the youth employment promotion

Serbian Association of Employers (SAE) which represents employers from different sectors and industries was established in 1994, but its active and visible work started only in 2003, when the Law on SEC was adopted. SAE membership includes 183,226 companies, representing 55.30 % of total Serbian employers, and 21.2% of private sector employers. Of 574466 SME, 131.275 – are SAE members (or almost 29%)

SAE is now reforming their organizational structure with the purpose of decentralizing its activities to regions to have better impact on social and economic development at the local levels, where actually implementation of all national plans and strategies, including youth employment promotion has been happening. SAE has 30 local offices and is planning to open more. Besides being representative on general level, SAE represents three Regional associations of employers; four Chambers of Craftsmen and eight sectoral associations (road-economy, electro-metal, construction, chemistry, textile-ladder-shoes, entertainment, tourism, and bank- finance).

SAE mission is:

- represent and promote common interests of employers related to their economic, social and other needs before government and trade unions;
- provide relevant information and services to its members, and strengthen their interrelationships;
- inform and raise public awareness about the purpose and positions of employers.

The most important SAE objectives are:

- explaining to all segments of society about the role of employers' organization in social-economic life;
- change the traditional belief that government does not need to consult employers when preparing laws and regulations;
- involvement of employers into local government and civil bodies activities into strengthening the local business infrastructure;
- modernization of VET system to match the real needs of economy, employers' participation in labour force development;
- lobbying for introduction of additional tax benefits for employers in potentially important sectors but with insufficient labour force;
- provide attractive services and publicity to all those employers who are still not our members in order to expand membership of SAE;
- expanding international activities to exchange best experiences of similar organizations abroad, bringing SAE closer to international standards.

SAE strategy for the following few years includes participating in::

- supporting collective bargaining and collective agreements; participating in solving collective labour disputes, and in bipartite and multipartite bodies at appropriate level.
- the work of Social-Economic Council, on both republic and local level;
- Solidarity Fund of Ministry of Labour and Social Policy - Management Board and Supervisory Board;
- Board for Establishing the Representatives of Trade Unions and Employers' Organisations;
- VET Reform Program of Ministry of Education and Sports - Management Board;
- Retirement and Disability Fund of Independent Activities - Management Board, Supervisory Board;
- Retirement and Disability Fund of Employees - Management Board, Supervisory Board;
- National Service for Employment - Management Board;

The most important ***SAE services*** to its members includes legal advices, assisting in peaceful solving of labour disputes (protection of employers during strike); providing education programs in application of laws and regulations; training managers (organization of seminars and courses) and licensing of new employers' organizations on regional and local level, within SAE

SAE actively participated jointly with Ministry of Labour and Social Policy, Ministry of Education and Sport, National Employment Service, ILO, Friedrich Ebert Stiftung,

GTZ, and many others, on the number of projects, such as development and reforming the labour inspection; support to employment; social financing as a support to self-employment; assisting to unemployed people due to restructuring and privatization; reforming of National Employment Service; regional program to promote employment; and reforming the VET.

SAE also participating in the series of projects activities, including such as *International Organization of Employers (IOE)* in strengthening the regional employers' organizations, *International Labour Organization*; *Union of Black Sea and Caspian Confederation of Enterprises (UBCCE)*. SAE also cooperate with *European Commission*, *European Training Foundation*, *European Agency for Reconstruction*, *Swiss Labour Assistance* and employers' organizations from other countries.

A part of the SAE structural problem is that its previous management had not played sufficient attention to decentralization and activation of the local SAE offices and improving their cooperation with social partners there. Now, local SAE branches have no support from local authorities, except in few municipalities. SAE would like to have more and better representations in different local agencies. This would provide better impact and information and experience exchanges between employers and their social partners at all levels.

Of 165 municipalities, SAE would like to create 60 local offices which would be more close to local social partners, improve cooperation and social dialogue between them, and enable to understand better the enterprise demands for occupations and skills profiles. The SAE is also planning to set up few sectoral employers' associations. All these would help employers participate in training and development activities and better representing demand side, as well as activating the local Social and Economic Councils.

Another important SAE strategic objective is to attract more membership and make their participation more active. Today it is very difficult for SAE management even to invite a group of managers to their offices for discussions and information exchange (except the SAE Board members).

As to the influence of SAE on youth employment promotion and improving their vocational education and training through activating the relevant government agencies, and linking demands and supply, the real impact is extremely low. There is no component in the SAE working plans relating to the issues of youth professional development and employment promotion. There is nobody in the SAE staff who would be officially responsible to look after these issues.

SAE have not initiated or sponsored the enterprise needs assessment survey to study market demands for occupation and skills in the fast changing Serbian business environment. The only exception is SAE participation in the joint ILO/SIDA project "Employers Organizations – Good Governance in the Labour Market and Youth Employment" dealing with youth employment promotion, vocational education and training.

Within this project the SAE conducted the survey with which many employers refuse to cooperate, so the data collected should not be considered statistical precise. Also, the administration of this project could be better. The person who is responsible for

this project from SAE side has not been properly trained in project management methods and techniques, which is unfair to this person. Despite it, she has done a tremendous job in conducting this survey, and some trends and information obtained were quite revealing and extremely useful to feel the reality in this area. This survey confirms practically all observations made in this reports concerning the situation with youth employment promotion, training and development status.

As a result, the SAE has made quite interesting conclusions and recommendations, including the needs to improve cooperation between social partners nationally and locally, needs for more information to young people on the labour market institutions and their services as well as updated information on the vacancies and the conditions to get a job, and where receive additional training, to get state funds for youth entrepreneurship, and many other issues. Unfortunately, no decision has been taken by relevant government agencies on such SAE proposals within the frame of the project.

SAE participate in other projects aiming at employment creation sponsored by EU, Germany, Italy and other countries. But, besides this project it was difficult to identify any serious action of SAE in the area of youth employment promotion and improving VET system. The top management of SAE perfectly recognizes these problems and taking some measures to cope with the situation. The SAE is planning to provide training services to employers and create more pressure on government agencies to go ahead with the educational reform with the emphasis on VET and management development training infrastructure. It would like to be present and actively participate on various management boards and councils of state agencies related to these issues.

Some agencies do not see the need yet to consult with SAE and get employers opinions on many decisions concerning youth education and training as well as its employment promotion. Government structure is too bureaucratic to involve business into different state programmes and projects for youth training and development. Companies from their side are not interested in participating in such programmes since the funds and benefits of such participation are very small, but time to prepare a lot of documents and to pass scrutiny of government bureaucracy are too high. Therefore, many companies refused to take part in such programmes.

One of the most important tripartite bodies influencing the economic and social development is the Social and Economic Council of Serbia (SEC). It represents the main platform for social dialogue at the national level. According to the Law (2004) it consists of representatives of the government (6), trade unions (6) and employers' associations (6). The SEC provides an opinion on such issues as development and enhancement of collective bargaining, economic policy and measures for its implementation, policy on wages and prices, employment policy, competitiveness and productivity, privatization, and education and training. The Law also envisages the establishment of SEC offices at provincial and local level.

Unfortunately, SEC does not functioning properly in the area of youth education and vocational training, its members has never come together in full. The most of the Ministries just ignore it and in the best case send low level officials, and each time – new ones. Out of 6 ministries, members of the SEC, only the Minister of Health

attends its meetings. Others – ignore it. The Minister of Education has never attended SEC and does not have information about employers need from the first hand.

Now SAE is aiming at activating SEC and hope it would push for serious reform of the VET system. SEC would like to attract employers to participate in local SEC. The only local SEC from Novi Sad is a good example of cooperation between SEC and social partners locally.

The SAE cooperative relationships with government agencies are quite cool or non-existent, despite the fact that SAE has been mentioning in a number of different national strategies and plans as a partner for implementation. Even in the Parliament from 250 members, only 5 represent employers. As a result, there is no powerful lobby to push legislation which would promote competitiveness and entrepreneurship, economic reforms faster and effectively. The Serbia needs it. The Global Competitiveness Report 2007-2008 ranks Serbia competitiveness as 85 of 131 countries.

There is almost no cooperation between SAE and the Ministry of Education, which is extremely slow in reaction on different changes in the business and social environment. SAE would like to improve the cooperation with it and would welcome to be a member of its National Education Council. The SAE would be willing also to participate in the UNDP sponsored project in implementing the National Youth Strategy. Unfortunately, the National Education Council has never sent its comment on this document. But, with the new government the relationships between SAE and the Ministry of education is slowly getting better.

While the relationships between SAE and government agencies and Chamber of Commerce are quite cool, the links between SAE and Trade Unions are very cooperative and constructive, despite the fact that labour-employers industrial relations at the company level ranks as 126 – among the worst of 131 countries. Good working and constructive relationships the SAE has with National Employment Services (NES) both centrally and locally. NES has tripartite board in which SAE is represented and the NES itself has its representative at the SAE board. And that is the only structure through which the SAE could influence the status of youth employment promotion and its vocational education and training, though quite limited since the public and private VET institutions are scattered between different agencies and there is only small part of them operating under NES.

Most of ministries and agencies related to these issues do not have close and constructive horizontal cooperation and information exchange between themselves. It explains the lack of focus in governance of different national strategies, plans and projects dealing with youth employment promotion and professional education. At the same time this an excellent opportunity for the SAE starting to play an important integrating role in youth development in Serbia.

11. Summary of problems

- On-going economic reforms and slow privatization have still low impact on youth employment growth. Some inherited imbalances continue to affect the economic performance of the country. Output growth did not revert into employment creation, unemployment continued to be among the highest in

Europe. Thus, the main reason for high youth unemployment is slow pace of economic reforms, particularly, the delay in privatization

- Business environment in SME development (legislation, registration, taxation and financial support etc.) remains to be improved. Too many procedures and days for registration of business start-ups, the taxation policy and system does not facilitate new job creation and with too heavy tax procedures is of great burden to SME operations and development
- Efforts and funds of many international sponsors and national agencies in SME development, youth employment promotion and improving VET system are scattered with lack of focus and coordination. Programmes supposed to assist SME in youth development are too bureaucratic, and require a lot of paper work. As a result, SME owners prefer not to participate in such schemes.
- Youth unemployment twice higher – than in CEE countries. Besides above mentioned reasons, this is also the result of mismatches between the educational outcomes and the requirements of the labour market. There is an excessively high rate of informal youth employment due to the absence of decent jobs in the formal economy.
- Many young job applicants has too much inertness, lack of initiative, unable to make simple decisions, have low motivation and ability to learn new things, and low work ethics. The local media does not play sufficient role in promoting the prestige of workers professions
- A serious problem for Serbian economy and for young people themselves is brain drain. And the most of them are well trained young people with university degree who could not find a decent job at home as a result of mentioned imbalances.
- There is a great gap between the market demands and VET system supply of the young labour force by quantity, occupational structure, skills profile and work attitudes. The rate of change (structural and technological) is much higher than the slow speed with which VET institutions and relevant state agencies have been adapting. The labour market information on structural and long term unemployment, market demands on the occupational and skills profiles is extremely poor and out of date.
- The VET system in Serbia is characterised by lack of qualification and accreditation systems, poor vocational education and training and difficulties in managing decentralisation drives. The existing old classification of occupations does not correspond to reality anymore. For the last 5 years the occupations have been disintegrated into many narrow professions and disciplines.
- The VET system suffers from lack of funding, low popularity among students and parents, obsolete equipment, narrow and early specialization approaches, and poorly qualified teachers.

- Among the most important complaints are irrelevant and poor practical skills of graduates from VET schools. In Serbia, most companies do not provide internships and on-the-job training. Firms are not interested in investing in training and development.
- The quality of educational programmes is greatly varied since the mechanisms for issuing the licenses and certificates for trainers and VET institutions, approaches to the training needs assessment and the quality of teaching are not based on assessments of direct users and have not been integrated into the national data base.
- The influence of SAE on youth employment promotion and improving their vocational education and training as well as VET system itself is still minor. The SAE has a structural problem linked to needs for decentralization and activation of the local SAE offices and improving their cooperation with social partners there, setting up new sectoral employers associations.
- There is an evident lack of communications and understanding between different social partners in youth development and employment promotion, information between them do not flow freely and in all directions, each of the bodies tried to find a scapegoat in another agency, reflecting behaviour and culture with excessively centralized bureaucracy. The SAE cooperative relationships with government agencies are quite modest.
- Government agencies do not see the need to consult with SAE and get employers opinions on many decisions concerning youth employment, education and training. The tripartite Social Economic Council, which supposed to deal with these issues does not functioning properly, its member has never come together in full.

12. Policy proposals

- In Serbian situation the most important factor of youth employment promotion is the improvement of general economic conditions for growth and new job creation. Thus, it is important to speed up economic structural reforms, particularly privatization of remaining state owned companies.
- There should be a strategy and action plans to move economy from the labour-intensive pattern to the innovation and knowledge-based economy. That is the best strategy for the country with relatively developed university education, small population and lack of natural resources. This strategy would provide decent jobs for highly educated young people who otherwise migrate abroad. The government should support and promote incubators, clusters and technology parks for innovative entrepreneurship.
- The more aggressive measures for SME and youth entrepreneurship development as the largest job provider sector for youth should be undertaken by the government and social partners. The process, number of permissions and time for business registration should be cut down using one window principle. The number of control visits by different state agencies should be limited by law to one visit for every 3 to 5 years and should be strictly

controlled by legal authorities. The breaking such law should be considered as an attempt of corruption.

- It is important to reduce taxes, particularly on non-wage labour costs. Now they are too high and enterprises are not interested to open new vacancies. Today about 40-50% of wage is paid in “envelopes” to avoid taxation. Reducing the tax would help to legalize and make all wages transparent; increase the tax revenues since more people would agree to pay less tax. It would stimulate also higher formal employment, particularly in small and medium companies. The state should facilitate making loans more accessible to SME and young entrepreneurs. Today the interests’ rate is too high blocking loans for small investors.
- Serbian government strategies and plans to overcome the quantitative and qualitative shortcomings of the youth employment promotion and vocation education system are quite adequate, but the pace of their implementation needs to be accelerated. The government has also to enact remedial policies to address the needs of those young people who have already left the formal educational system and excluded from the labour market. There is an urgent need to create mechanisms for labour market information and career counselling for youth accessible to all.
- There is need for changes in legislation to reduce bureaucracy, introduce more deregulation and decentralization, new law on property, which would attract investors. Labour legislation constraints flexibility and excessively protect workers (mostly from productive work). Too high minimum wages for Serbia conditions does not stimulate SME to take more workers; many SMEs prefer informal employment to formal one.
- There is an urgent need for the radical reform and innovation of the VET system. It should be more deregulated and decentralized to move educational and training institutions to closer to their markets – regions, sectors, employers and students. The state VET funds should be decentralized to the regions, and the most of finance for VET should follow clients (employers and students), not service providers (VET schools and ministries). The strategy and policy making could be transferred from the Ministry of Education to a special National Agency specializing only in VET and composed of the main clients and social partners, having tripartite structure. It should include top-representative from all ministries dealing with education and youth development, but at least with 50% of representation should be from employers’ organizations as a major VET market. The most of VET institutions themselves should be privatized. Such structural arrangement would introduce healthy competition between VET institutions. And if the VET funds follow clients, they would certainly select the best and the most appropriate for their needs. This would immediately create the market for independent rating organizations, developing occupational and skills standards and qualification systems as well as for the system of quality assessment.
- The occupations and qualification systems should be revised and update, the quality assessment of VET institutions should be done by the body independent from training providers with solid representation from the

funding agencies and clients. The accent should be made on acquiring practical skills and ability to do and the assessment should emphasise on ability to do job, and less on concepts.

- The SAE should revise its strategies and plans making the participation in youth employment promotion and upgrading the VET system as one of its central concerns. SAE should capitalize on its own decentralization drive and use it as an instrument to strengthen the capacities of SAE local offices in their role in youth employment promotion and reforms of VET system, improving cooperation with social partners locally.
- The SAE should develop action plan on improving its role in influencing the central agencies in promoting youth employment and vocational education and its reform at the national level, take the lead in improving cooperation with SEC and relevant ministries dealing with this issue, conduct more aggressive and active policy in this regards. To raise its status and authority among its company-members, the SAE should expand its direct services to employers making the membership in SAE more attractive for them.

It should be noticed that many mentioned in this reports has been already reflected in various national strategies, actions plans, national and international reports. ***So, the key word here is an execution.***

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Interviewed persons

1. Stevan Avramovic – President, Serbia Association of Employers (SAE), also entrepreneur and company owner (metal industry)

2. Bogdan Savic – Secretary General, SAE, also shareholder in private business (banking)
3. Dejana Kuzmic – International cooperation, SAE
4. Natasa Cupac – Legal department, SAE
5. Nebojsa Atanacovic – owner of the company “Centar Boban”, also Assembly President of SAE
6. Dragan Miyanovich – President, company “Altamed”
7. Radenko Tresac – Director General, “Altamed”
8. Milanovic Milos – Assistant Director General, HRD, “Altamed”
9. Igor Brkanovic – Assistant Minister, Ministry of Economy and Regional Development
10. Tatjana Prijic – Head of Division for Legal Affairs, Ministry of Economy and Regional Development
11. Aleksandra Djodjevic – Adviser on SME development, Ministry of Economy and Regional Development
12. Snezana Bogdanovic – Head of Division for Labour Standards, Senior Advisor, Ministry of Labour and Social Policy
13. Snezana Klasnja – Deputy Minister, Ministry of Youth and Sport
14. Bojan Ristic – Head of Vocational Education, Ministry of Education
15. Dragan Djukic – Sectors Director, Division of Employment, National Employment Service
16. Dr. Vlastimir Matejic – professor of European Centre for Peace and Development, founder of Association of Technology and Society, international management development consultant
17. Ivan Kovasevic – General Manager, Educational and Training Centre “Duro Salaj AD”
18. Ljiljana Nestorovic, Training Coordinator, Educational and Training Centre “Duro Salaj AD”
19. Valli Corbanese – CTA for the ILO youth employment project, Belgrade (telephone conference)
20. Anne Knowles – ILO Budapest (was on mission to Belgrade)
21. Jovan Protic – The ILO National Coordinator for Serbia