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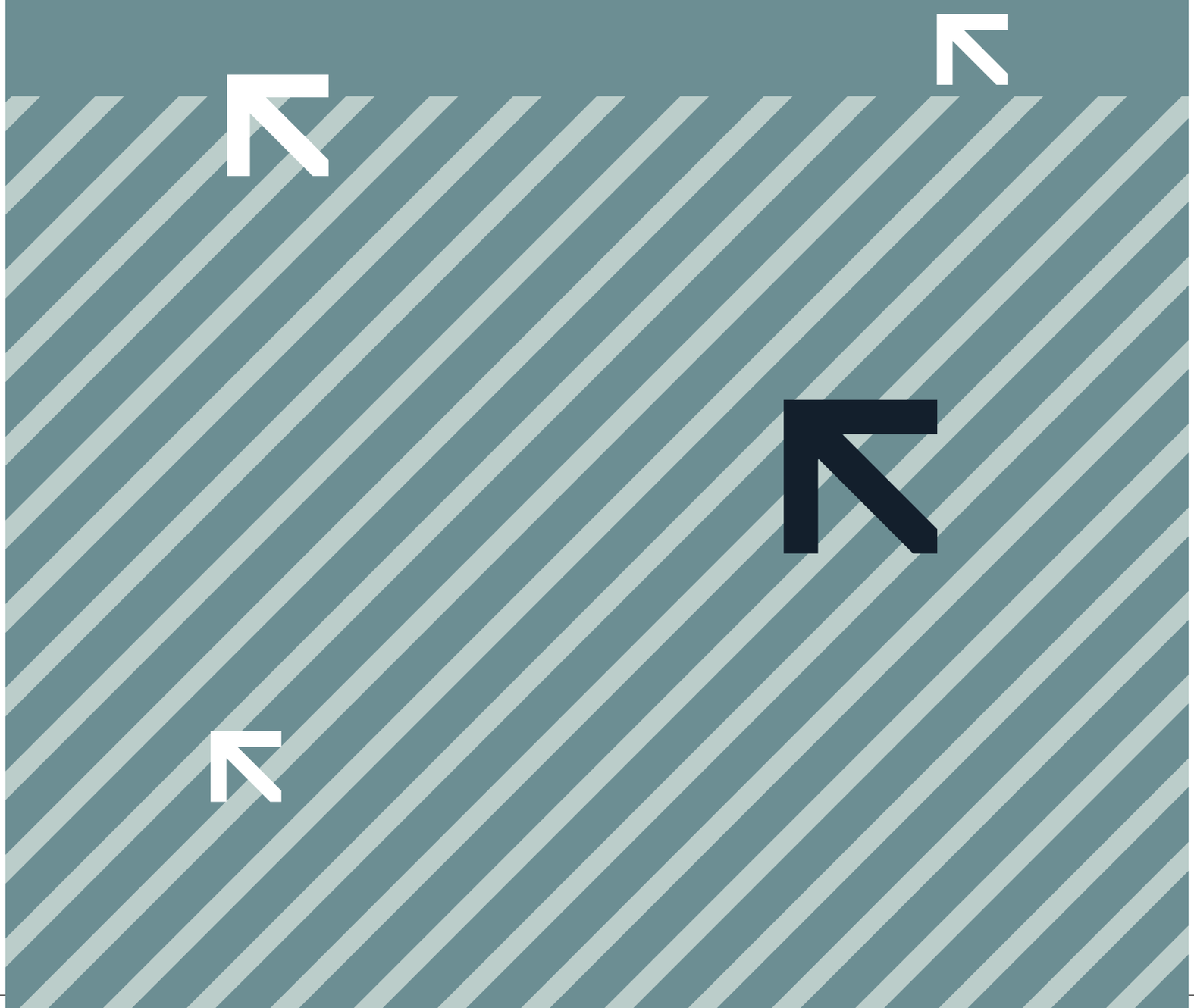

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Editor:
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ANALITIKA
Center for Social Research

Sarajevo, 2016

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Editor:
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Published by:
Analitika – Center for Social Research
Year: 2016

Publisher Address:
Hamdije Kreševljakovića 50, 71000 Sarajevo, Bosna i Hercegovina
info@analitika.ba; www.analitika.ba

Copy Editing:
Mirela Rožajac-Zulčić

Design:
Brankica Ilić

DTP:
Jasmin Leventa

This study was published as part of the research for the Think and Link Regional Policy Programme's project titled "Challenging unemployment in the Western Balkans: Enhancing active labour market policies in Albania, Bosnia and Herzegovina and Macedonia", implemented by Analitika – Center for Social Research, in cooperation with Finance Think from Macedonia and Agenda Institute from Albania, with the support of the European Fund for the Balkans. The views expressed in this study are those of its author and do not necessarily reflect the views of the European Fund for the Balkans.

1.
Introduction

The Western Balkan (hereafter: WB) countries are facing a difficult economic situation and inadequate economic governance, which, among other things, results in poor labour market performance and outcomes. The region is characterised by persistently high levels of unemployment, low job creation rates[1], the presence of structural unemployment[2] and a generally underdeveloped institutional framework of the labour market. Three countries – Albania, Bosnia and Herzegovina (hereafter: BiH) and Macedonia – which are the focus of this study, share the same labour market problems and are characterised by similar socio-economic trends as other countries in the WB region.

Despite poor labour market outcomes and socio-economic issues that arise as a result, labour market policies are still insufficiently developed in these three countries and have limited effects on employment and labour market improvement. This is especially relevant for active labour market policies (hereafter: ALMPs), which are recognized in both developed and developing countries as one of the most important policy instruments in fighting unemployment, in mitigating labour market imbalances and contributing to long-term improvements in its efficiency. In that sense, effective activation policies are promoted by the Organisation for Economic Co-operation and Development (hereafter: OECD) and the European Commission with the conviction that they will help reduce unemployment and boost employment.[3]

The main aim of the research conducted for this study was to provide evidence on key aspects of ALMPs and their implementation in these three countries, considering that research and systematised data in this field are lacking. Insufficient evidence on ALMPs in Albania, BiH and Macedonia limits policy debates and the formulation of effective policy proposals in the field of employment. Based on such research, the aim was also to provide evidence-based recommendations to further the discussion on ALMPs in these three countries.

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1 Dmitriy Kovtun et al., *Boosting Job Growth in the Western Balkans [IMF Working Paper]* (International Monetary Fund, 2014); Nikica Mojsoska-Blazevski, *Challenges to Successful Employment Policy in the Region: Towards More Jobs, Quality Labour Force and Greater Competitiveness [Discussion Paper]* (Western Balkans Investment Framework, 2012).

2 Ibid.

3 John P. Martin, *Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness [IZA Policy Paper No. 84]* (Bonn: IZA, 2014), p. 3.

Research was conducted through a combination of secondary and primary research methods, relying on both qualitative and quantitative data. This included an analysis of legal and policy frameworks, descriptive analysis of the available aggregate labour market data, and targeted, semi-structured interviews with relevant stakeholders in these three countries.

Research has shown that ALMPs in the observed countries are developed only in a rudimentary form and suffer from many shortcomings, as explained further in the study. The level of public spending on these policies is generally low, the coverage of labour force by ALMP measures is quite limited, while targeting and design of ALMP programmes need further improvements in all three countries. In addition, a lack of evaluation of implemented ALMP measures hinders evidence-based policy making and the implementation of necessary improvements in this field.

However, it is necessary to emphasise several important limitations of this study. A lack of reliable data on some important dimensions of ALMPs, as well as the low comparability of available data between countries, has inevitably affected the analysis and understanding of some important issues with respect to the implementation of ALMPs in these countries. Such limitations are explained in more detail in further text.

The study is structured as follows: a brief conceptual overview of ALMPs, their development and key elements are presented in the second chapter of the study. An overview of the main labour market trends by key indicators of labour market performance in the three countries is provided in the third chapter. The fourth chapter presents key research findings on ALMPs, covering four main aspects of these policies in Albania, BiH and Macedonia: (a) the institutional and policy frameworks of ALMPs, (b) coverage, target groups and targeting by ALMPs, (c) the types of active measures / programmes deployed, and (d) the evaluation and effectiveness of these measures. Finally, general recommendations for improving active labour market policies are formulated based on the research findings.

2.

Active Labour Market Policies: Concepts, Development and Current Global Trends

2.1. Definition and Classifications

There is no unique definition and understanding of ALMPs. In the simplest but very narrow sense, ALMPs can be defined as a set of economic measures applied "in order to improve the functioning of the labour market that are directed towards the unemployed"[4] or, in other words, "to improve the labor market position of unemployed workers"[5]. However, ALMPs often do not target only unemployed persons, but are also directed toward preserving at-risk jobs and activating inactive persons. Therefore, an understanding of ALMPs can be expanded and they can be defined as policy measures intended to challenge structural imbalances in the labour market, to maintain the supply of labour by keeping long-term unemployed and "outsiders" in the labour market, to boost demand for labour through job creation and to improve human capital, mainly through training measures.[6] Active measures are part of broader employment policies that also include passive measures, such as unemployment benefits and related welfare benefits.

In the past two decades, ALMPs were usually understood as a pillar of the wider policy framework of activation. Although 'activation' is still underdefined as a concept, activation strategies aim "to bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage

[4] Lars Calmfors, "Active Labor Market Policy and Unemployment – A Framework for the Analysis of Crucial Design Features", *OECD Economic Studies,* no. 22 (1994), p. 8.

[5] Jan C. van Ours, *Do Active Labor Market Policies Help Unemployed Workers to Find and Keep Regular Jobs?* (Bonn: IZA, 2000), p. 2.

[6] Veronica Escudero, *Are Active Labour Market Policies Effective in Activating and Integrating Low-Skilled Individuals? An International Comparison* (Geneva: International Labour Office, 2015), pp. 2-5.

employment services and other labour market measures so that they effectively promote and assist the return to work".[7]

The two main functions of ALMPs can be described as 'economic' and 'social'. The 'economic' pertains to the economic performance of labour markets, such as the generation of jobs, allocation of human resources, matching of labour demand and supply and overcoming structural gaps in that regard. The 'social' mitigates the social consequences of poor economic and labour market outcomes and seeks to remove obstacles to employment through the inclusion of vulnerable, socially excluded and hard-to-employ categories.[8]

Three fundamental target groups of ALMPs are the unemployed, employed persons who are endangered by potential involuntary job loss and inactive persons who can and would like to enter the labour market.[9] Therefore, measures are primarily oriented towards employment and inclusion of the most vulnerable, excluded, hard-to-employ and disadvantaged social categories on the labour market, i.e. groups with the lowest prospects for employment and economic inclusion. In that sense, the typical target groups of ALMP measures are women, older people, youth, the long-term unemployed, the low-skilled, persons with disabilities, immigrants and others.[10] However, ALMP measures are often also designed to cover unemployed persons who do not belong to these groups, and have higher chances of getting a job.

The very basic dichotomy of ALMP types is between a human investment and an incentive-based approach.[11] The first approach is based on various policy measures – primarily training and educational measures, such as on-the-job training, classroom training, re-training, and others – oriented towards improving human capital. Literature usually associates this approach with Nordic countries.[12] The second relies on work incentives and negative incentives "to move people from social assistance into employment" through benefit conditionality, benefit reduction and the use of sanctions[13]. Of course, it is not possible to fully separate these two approaches: they are often intertwined in policy design. Moreover, such a classification is over-simplistic and cannot encompass the complexity of ALMP

[7] Organisation for Economic Co-operation and Development (OECD), *OECD Employment Outlook 2013* (OECD Publishing, 2013) according to Martin, *Activation and Active Labour Policies in OECD Countries*, p. 3.

[8] See Jovan Zubović, "Aktivne mere na tržištu rada i evaluacije uticaja" in *Aktivne mere na tržištu rada i pitanja zaposlenosti,* ed. Jovan Zubović (Beograd: Institut ekonomskih nauka, 2011), p. 522.

[9] EUROSTAT, "Labour Market Policy"; Ibid., p. 523.

[10] See: Organisation for Economic Co-operation and Development (OECD), "Chapter 4: Policies Targeted at Specific Workforce Groups or Labour Market Segments" in *OECD Employment Outlook: Boosting Jobs and Incomes* (Paris: OECD, 2006).

[11] Giuliano Bonoli, *The Political Economy of Active Labour Market Policy* (Edinburgh: Dissemination and Dialogue Centre, 2010).

[12] Ibid.

[13] Ibid, p. 10.

measures. Thus, in literature, as well in the academic and professional discourse on ALMPs, several classifications / typologies of ALMP measures coexist.

Probably one of the most comprehensive and sufficiently broad classifications of ALMP measures is offered by Brown and Koetll (2012)[14]. According to this proposed classification, ALMP measures are classified as interventions that are (a) targeting the demand side of the labour market, i.e. incentives for retaining and creating employment, (b) targeting the supply side of the labour market, i.e. incentives for seeking and keeping jobs and for human capital enhancement, and (c) improving labour market matching between the demand and supply sides (see also Table 1):

1. Incentives for retaining employment are based on financial incentives to employers to keep the employment relationship with workers in order to prevent and/or reduce employment outflow. Commonly used instruments to achieve these aims are (a) wage subsidies and non-wage labour cost reductions (such as taxes and contributions) and (b) short work schedules or work-sharing, which "incentivize employers to reduce labour costs along the intensive margin [number of hours per worker, author's note] in contrast to the extensive margin [number of workers, author's note] while fully or partly reimbursing workers for hours not worked"[15]. Such incentives are usually applied for a limited period (mostly during economic crises) and are oriented towards at-risk jobs, targeting "specific sectors, high unemployment areas or specific groups or workers"[16]. In short, the ultimate aim of these measures is to enable employers to keep employees (e.g. during negative business cycle periods) as well as to ensure job and income security for workers.[17]

2. Incentives for creating employment are based on financial incentives for employers to create new jobs in order to increase employment inflow. The main instruments of these programs are wage and hiring subsidies and non-wage labour cost reductions, which are targeted at employment of labour market outsiders, especially the long-term-unemployed and disadvantaged workers with outdated skills, inactive persons and informal workers. In addition, self-employment and entrepreneurship incentives in the form of subsidies, grants and credits, as well as advisory services (training, counselling and mentoring) intended for unemployed and inactive persons, are also a part of job-creating measures.[18]

[14] Alessio J.G. Brown and Johannes Koettl, *Active Labor Market Programs: Employment Gain or Fiscal Drain? (Discussion Paper No. 6880)* (Bonn: IZA, 2012), p. 5.

[15] Ibid, p. 3.

[16] Ibid.

[17] Ibid.

[18] Ibid.

3. Incentives for seeking and keeping a job are oriented towards the labour supply "by increasing the payoff from employment for workers"[19]. Within these programs, various instruments - such as financial transfers and subsidies designed as income supplement (e.g. in-work benefits) or public works - are deployed in order to incentivise low-wage, unemployed, discouraged and inactive workers to seek formal employment. At the same time, these measures have a strong redistributive role and objectives. For example, despite the fact that public works are found to be cost-inefficient and do not result in intended effects in terms of employment, this measure is implemented as a part of social welfare programs with redistributive aims or, more precisely, income support and poverty reduction objectives for disadvantaged workers.[20]

4. Incentives for human capital enhancement are oriented towards the improvement of labour skills and competences for both employed and unemployed workers. Most prominent instruments are "labor market training and retraining in classrooms covering basic job skills (for example, languages, computer knowledge, and so on) or specific vocational skills (for example, advanced computer or technical skills) as well as on-the job training and training vouchers"[21]. These measures are widely applied as a part of ALMPs in Europe.[22]

5. Improved labour market matching[23] is a form of brokerage between unfilled vacancies and job seekers or, in other words, employers and the unemployed.[24] The main policy instruments within this measure are job search assistance, counselling, monitoring and employer intermediation services.[25] This measure is primarily based on information sharing (on vacancies, calls, etc.), preparation for employment (for example, in terms of improving presentation and communication skills), guidance (orienting unemployed persons towards those jobs for which they have the needed skills and qualifications) and provision of other types of support to job seekers. Some of the main tools for achieving these aims are, for example, individual employment plans, career guidance, jobs clubs etc. Such interventions are usually considered 'cheap' and relatively effective.

In addition, youth-oriented programmes and programmes intended for persons with disabilities are recognized as separate measures in some classifications[26].

[19] Ibid, 4.

[20] Ibid, pp. 4–6.

[21] Ibid, p. 6.

[22] Ibid.

[23] In some classifications, this measure is called 'public employment services'. See, for example, Lehmann and Kluve, *Assessing Active Labor Market Policies in Transition Economies*, pp. 3–4.

[24] Brown and Koettl, *Active Labor Market Programs,* pp. 6–7.

[25] Ibid.

[26] See, for example, Lehmann and Kluve, *Assessing Active Labor Market Policies in Transition Economies*.

Table 1: Classification of ALMP measures

Relevant instruments, target groups, and intended effects of ALMPs				
Target Area	Category (based on aims)	Instruments	Targeted Workers	Intended Effects
Labor demand	I. Provide incentives for retaining employment	Work sharing and short work	Insiders	- Reduce outflow from employment - Retain labor market attachment
		Wage subsidies		
	II. Provide incentives for creating employment	Hiring subsidies	Outsiders	- Increase inflow into employment - Increase labor market attachment
		Business start-up support		
Labor supply	III. Provide incentives for seeking and keeping a job	In-work benefits, subsidies, tax credits	Insiders and outsiders	- Increase inflow into employment by strengthening work incentives - Reduce outflow from employment - Increase labor market attachment - Provide income support
		Public works	Outsiders	- Increase inflow into employment by strengthening work incentives - Increase labor market attachment - Provide income support
		Activation and workfare	Outsiders	- Increase inflow into employment by strengthening work incentives
		Sanctions		
	IV. Provide incentives for human capital enhancement	On-the-job training	Outsiders and insiders	- Increase inflow into employment - Increase productivity - Improve match quality
		Classroom training		
Labor market matching	V. Improved labor market matching	Job search assistance	Outsiders	- Improve job search efficiency - Increase inflow into employment
		Employer intermediation services	Outsider and insiders	- Improve job search efficiency - Improve match quality - Increase inflow into employment
		Counselling and monitoring	Outsiders	- Improve job search efficiency - Increase inflow into employment
Note: "Insiders" refers to those who are currently employed, "outsiders" to the unemployed, long-term unemployed, discouraged, informal workers, and inactive persons.				

Source: Table taken from Brown and Koettl (2012)[27]

[27] Brown and Koettl, *Active Labor Market Programs,* p. 5.

2.2. The Historical Development of ALMPs: A Brief Overview

ALMPs emerged in their basic form in the first half of the 20th century under the influence of Keynesian theory of unemployment, and were implemented within the wider economic framework of New Deal policies[28], or widely accepted and applied demand-side measures which had the aim to manage and fight the negative socio-economic effects of the Great Depression. During this period, ALMPs were developed in a rudimentary form, as they were mainly based on public work schemes and direct job creation within the public sector.

Modern ALMPs were established in Sweden during the 1950s and 60s as one of the main pillars of the Rehn-Meidner model of economic reform[29]. In this model, ALMPs were primarily based on skills-improvement and requalification measures such as training, re-training and other education programmes. In other words, this approach was oriented towards the development of human capital, with the aim of achieving full employment, fighting structural unemployment, modernizing the Swedish economy as well as reducing the inflationary effects of counter-cyclical economic policies[30]. Economic growth and modernization of the Swedish industry were namely based on real wage growth and the demand for increasing productivity, *inter alia*. This led to industrial reorganization and the abandoning of low-productivity industries. In such a reform environment, ALMPs had the aim to capacitate the labour force released through these processes for the employment in growing industries that had an increased demand for labour. ALMPs thus played a key role in the country's economic development from the mid-1950s until the beginning of the 1970s, when the 1973 Oil crisis and the economic stagnation and mass employment that ensued worldwide drastically influenced economic policies of the majority of Western countries and, as a result, the primary role of ALMPs and their general design[31].

In a new socio-economic context, the focus of ALMPs in many countries shifted from skills-improvement towards combating rising unemployment. Even though training measures retained an important role, a diversification of ALMP measures,

[28] See more in: Jovan Zubović and Jonel Subić, "Reviewing Development of Active Labour Market Policies and the Evaluation Techniques" in *The Role of Labour Markets and Human Capital in the Unstable Environment,* ed. Jean Andrei, Drago Cvijanović and Jovan Zubović (Ploiesti: Karta Graphic Publishing House, 2011).

[29] See more in: Bonoli, *The Political Economy of Active Labour Market Policy,* pp. 20-22; Lennart Erixon, *The Rehn-Meidner Model in Sweden: Its Rise, Challenges and Survival* (Stockholm: Department of Economics, Stockholm University, 2008); and Ekhard Brehmer and Maxwell R. Bradford, "Incomes and Labor Market Policies in Sweden, 1945-70", *Staff Papers (International Monetary Fund)* 21, no. 1 (1974), pp. 101-126.

[30] Bonoli, *The Political Economy of Active Labour Market Policy* and Martin, *Activation and Active Labour Market Policies in OECD Countries.*

[31] See Bonoli, *The Political Economy of Active Labour Market Policy.*

with the focus on direct job creation in the public sector, occurred. The main target population were socially vulnerable and hard-to-employ groups. ALMP targeting and purpose thus had a social, rather than an economic dimension, considering that their main role became a short-term amortization of consequences of poor economic performance. Such measures can be described as "occupational"; in other words, their main effect was to keep the labour force in a work routine and prevent the deterioration of human capital due to unemployment[32]. This approach, which can be described as a second phase of ALMP development, was primarily applied in France, Germany and the United States, and remained in place until the mid-1990s.

The third phase of ALMP development is usually described as the "activation turn"[33], which persists today. Its focus is on stimulating employment and boosting the employability of jobseekers. The approach emerged as a part of Danish employment policies during the mid-1990s[34], when activation became one of the fundamental parts of the Danish "flexicurity" model[35]. It was also promoted by the OECD and the EU during the 1990s and became a part of the European Employment Strategy[36]. The initial idea behind this approach was a policy shift from passive to active labour market measures, given the belief that an important root cause of labour market imbalances lies in the supply side; in other words, unemployment was seen as the over-supply of low-skilled labour[37]. In the activation discourse of that time, unemployed benefits and related passive employment measures were considered to discourage active job seeking. However, the idea of a policy shift from passive to active policies was soon abandoned, considering empirical evidence in this field that a combination of such measures results in optimal effects. Indeed, unemployment benefits and activation measures are regarded as complementary measures.[38]

An important characteristic of activation is the shift from an 'employment' to an 'employability' paradigm: ALMP design is largely directed towards investment in human capital and the enhancement of labour competitiveness, given the

[32] Ibid.

[33] Ibid.

[34] See ibid.

[35] Flexicurity combines increased labour market flexibility with strong social security measures and expanded employment opportunities. For more, see: Jianping Zhou, *Danish for All? Balancing Flexibility with Security: The Flexicurity Model* (International Monetary Fund, 2007); Mirna Jusić and Amar Numanović, *Flexible Labor in an Inflexible Environment: Reforms of Labor Market Institutions in Bosnia and Herzegovina in a Comparative Perspective* (Sarajevo: Analitika – Center for Social Research, 2015), pp. 13–17.

[36] See, for example, Jusić and Numanović, *Flexible Labor in an Inflexible Environment,* pp. 80–84.

[37] Bonoli, *The Political Economy of Active Labour Market Policy*, p. 20.

[38] Werner Eichhorst and Klaus F. Zimmermann, "A New Understanding of Labor Market Institutions – Layard and Nickell on Labor Economics and Policy Making" in *Combatting Unemployment,* ed. Richard Layard and Stephen J. Nickell (Oxford: Oxford University Press, 2011).

belief that low skills and productivity are an important culprit of labour market imbalances, as well as the requirements of a new economic order, characterised by the demand for high-skilled and productive labour and rapid changes in the professional environment. Employability is to be achieved through a combination of quality training with other ALMP measures and by establishing close relationships between ALMPs, vocational programmes schemes and the education system. A focus on employability also means that the understanding and the scope of labour market interventions through national public employment services (PES) have changed. Direct employment is no longer considered as the primarily role of the PES, but they are rather to support active job-seeking and employability through timely and adequate reactions during unemployment spells, as well as through counselling, guidance and human capital improvement.

In a number of countries, activation is also characterized by the 'conditionality principle', where participation in ALMP programmes is set as a condition for benefit entitlement. The exact criteria, time-frame for obligatory involvement in ALMP measures and related conditions vary among countries, depending on the general institutional setup of labour market policies and employment goals.

In the last two decades, activation policies and, therefore, ALMPs have become a constituent part of EU social policies. The idea of active social policies in the EU was born in the second half of the 1990s[39] as a reaction to growing socio-economic challenges, such as the consolidation of the European social and economic area, increased mobility among member countries, population ageing and the subsequent increased pressure on fiscal sustainability of welfare programmes, a changed nature of the labour market and more flexible working conditions.[40] During the 'Lisbon decade' (the 2000s), an effort to establish the principles of an 'active welfare state' in the EU continued.[41] In that regard, ALMPs are recognized as a crucial pillar of so-called 'active inclusion' policies[42], which aim at fighting poverty, unemployment and exclusion through a comprehensive set of social measures, including a combination of social benefits, ALMPs,

[39] See European Commission, The Future of Social Protection: A Framework for a European Debate: Communication from the Commission, COM (95) 466 (Brussels: European Commission, October 31, 1995); European Commission, Modernising and Improving Social Protection in the European Union: Communication from the Commission, COM (97) 102 (Brussels: European Commission, March 12, 1997).

[40] Amar Numanović, *Social Assistance System in BiH: The Neglected Potential of Active Social Policies* (Sarajevo: Analitika – Center for Social Research, 2016), pp. 2–3.

[41] See Council of European Union, Lisbon European Council 23 and 24 March 2000: Presidency Conclusions (Lisbon: European Council, March 23-24, 2000).

[42] "Commission Recommendation 2008/867/EC of 3 October 2008 on the Active Inclusion of People Excluded from the Labour Market" *Official Journal of the European Union* L 307/08.

and access to quality social services[43]. Such a social policy direction was also confirmed by the Europe 2020 Strategy and other related policy documents.[44]

2.3. Impact, Effectiveness and Evaluation of ALMPs

The main policy effect of ALMPs on the labour market is often illustrated by the so-called Beveridge curve, "which can be interpreted as a measure of the effectiveness of the matching process between vacancies and unemployed."[45] According to the Beveridge curve model, the relationship between job vacancy and unemployment rates is inverse, i.e. a low number of vacancies leads to higher unemployment[46]. However, in the case of decreased efficiency of the labour market, unemployment will rise despite an unchanged level in vacancies and the curve will move outward. Therefore, it is often considered that ALMPs have the aim to enhance labour market efficiency through improved matching, as to "reduce the number of job searchers associated with a given number of vacancies in equilibrium, i.e. to shift the Beveridge curve (...) to the left"[47] (Δr in Picture 1).

[43] See Numanović, *Social Assistance System in BiH,* p. 3.

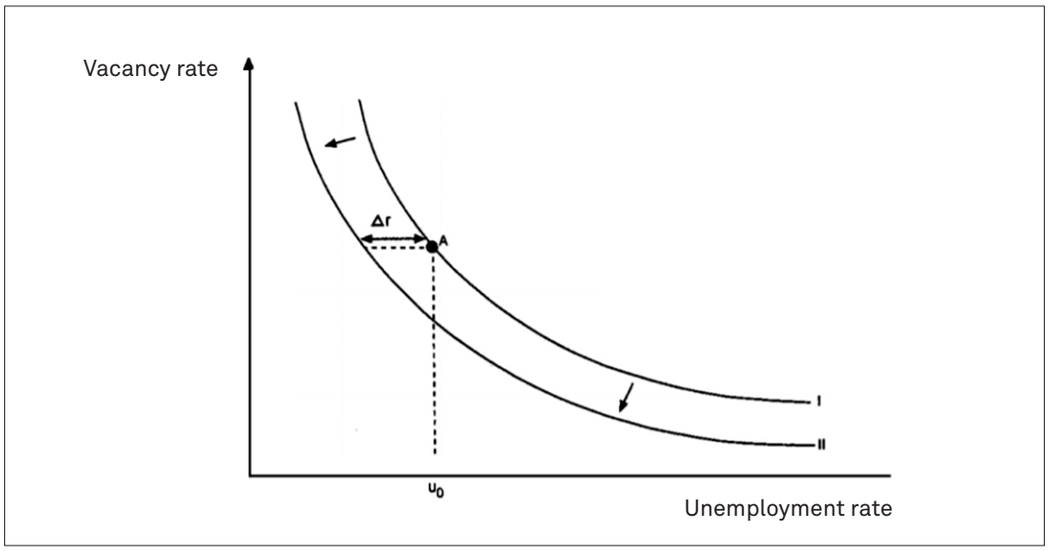
[44] See European Commission, Europe 2020: A European Strategy for Smart, Sustainable, and Inclusive Growth, COM (2010) 2020 (Brussels: European Commission, 2010); See also European Commission, Towards Social Investment for Growth and Cohesion – Including Implementing the European Social Fund 2014-2020, COM (2013) 83 (Brussels: European Commission, 2013).

[45] Calmfors, *Active Labour Market Policy and Unemployment*.

[46] See, for example, Elva Bova, João Tovar Jalles and Christina Kolerus, *Shifting the Beveridge Curve: What Affects Labor Market Matching? [IMF Working Paper]* (International Monetary Fund, 2016), pp. 6-7.

[47] Calmfors, *Active Labor Market Policy and Unemployment*, p. 13.

Picture 1: Beveridge curve



Source: Calmfors (1994)[48]

However, this model of interpreting ALMP impact on the labour market is limited, as it refers to unemployment only, while ALMPs deal with other types of labour market issues as well (e.g. inactivity, at-risk jobs, transition from informal to formal labour market, etc.). Furthermore, this approach can mainly explain the gross impact of ALMPs, rather than the net impact – i.e. the numerous side-effects of these policies. ALMPs as a form of government intervention into market mechanisms and processes results in some more or less visible short-run and long-run labour market effects (deviations), which can outweigh the positive direct effects of these measures, including employment. In that sense, several effects of ALMPs have been identified by empirical research[49], and some of the most important ones that can undermine the effectiveness of ALMPs are presented in Table 2.

[48] Ibid, p. 10.

[49] One of the most comprehensive and systematic overviews of ALMP effects in offered in Brown and Koettl, *Active Labor Market Programs,* pp. 7-12.

Table 2: Negative effects of ALMPs

Type of effect	Description of the effect
Deadweight effect	A deadweight effect occurs if a person who has been employed through employment subsidies or other measures would have been hired anyway. This effect can be reduced through better targeting (e.g. towards persons with the lowest employment prospects), but cannot be fully avoided.
Displacement effect	A displacement effect occurs when ALMP measures crowd out regular employment, e.g. when employers hire subsidized instead of unsubsidized workers, replace regular for subsidized workers or fire workers after a programme/subsidy expires. The 'principle of additionality', i.e. subsidizing only additional jobs, is a way to reduce this effect to some extent.
Substitution effect	A substitution effect occurs when employers decide to substitute higher-skilled with lower-skilled workers employed through ALMPs due to lower labour costs.
Cream-skimming effect	A cream-skimming effect occurs when (only) jobseekers with high employment probabilities are selected for ALMP programmes, as to create the impression of success of a particular programme.

Source: Brown and Koettl (2012)[50]

Besides these effects, primarily related to deviations in labour market mechanisms, some negative effects related to the behaviour and image of participants in ALMP programmes have also be identified. For example, participation in ALMP programmes may signalise low productivity of workers to employers and result in a 'stigmatising effect'.[51] On the other side, participants in ALMP programmes can have a lower probability of finding a job as compared to non-participants, due to less time or motivation for job-seeking while participating in such programmes[52] (the 'locking-in effect').

Despite potential negative effects and distortions, significant positive effects in the form of employment, the preservation and improvement of skills, improvement in competitiveness and productivity and inclusion in the labour market, *inter alia*, justify the use of such measures. However, there is no full consensus nor clear-cut research evidence on the effectiveness of particular ALMP measures and the impact of such policies on the labour market in general. In other words, "the evidence from existing evaluations remains inconclusive" considering that "there is a little consensus on whether Active Labor Market Policies actually reduce unemployment or raise the number of employed workers,

[50] Summarised on the basis of Alessio J. G. Brown and Johannes Koettl, *Active Labor Market Programs.*

[51] See Ibid, p. 10.

[52] See Ibid, p. 9.

and which type of programs seems most promising"[53]. However, relying on evaluations of particular ALMP measures,[54] some conclusions may be drawn.

According to some evaluations, training programs "are found to have a modest likelihood of recording a positive impact on post-program employment rates"[55]. However, some studies have shown that they are more likely to report positive effects in the medium and long run[56]. Finally, the effectiveness of training measures is confirmed by some macroeconomic evaluations, indicating "that job training is most effective in reducing the unemployment rate and increasing the employment-population rate"[57].

Evidence on the effectiveness of employment measures are mainly mixed and inconclusive. On the one side, many evaluations have confirmed a positive impact of private sector employment measures[58]. For example, according to Kluve's (2006) meta-evaluation of ALMP effectiveness, private sector employment programmes are 40 to 50% more likely to show a positive impact when compared to (traditional) training programmes[59]. On the other hand, some macroeconomic evidence has suggested that "expenditures on subsidized jobs do not affect the unemployment rate nor do they affect the employment-population rate"[60]. However, differences between microeconomic and macroeconomic evidence can partially be explained by the 'substitution effect': participants are employed at the 'cost' of other workers, which leads to their employment but does not affect the wider macroeconomic picture of unemployment. Furthermore, while such

[53] Jochen Kluve, *The Effectiveness of European Active Labor Market Policy (Discussion Paper No. 2018)* (Bonn: IZA, 2006), p. 2.

[54] An extensive systematisation of microeconomic evaluations of ALMPs can be found in: Kluve, *The Effectiveness of European Active Labor Market Policy*, pp. 33-45.

[55] Kluve, *The Effectiveness of European Active Labor Market Policy*, p. 27.

[56] In some studies, a positive long-term impact of training measures in terms of cost-effectiveness is confirmed. See, for example, Brown and Koettl, *Active Labor Market Programs* and Thomas Bredgaard, "Evaluating What Works for Whom in Active Labour Market Policies", *European Journal of Social Security* 17, no. 4 (2015). On the other side, research conducted in Latin American countries and the Caribbean did not confirm an increasing impact of training programmes over time, which can be attributed to "short durations of the training interventions in the region, implying relatively small human capital investments" (p. 30). The same research has shown that training programmes with a duration of 4 month or less "are significantly less likely to show positive treatment effects" (p. 30). See Jochen Kluve, *A Review of the Effectiveness of Active Labour Market Programmes with a Focus on Latin America and the Caribbean* (Geneva: International Labour Office, 2016).

[57] Jan Boone and Jan C. Van Ours, *Effective Active Labor Market Policies* (Bonn: IZA, 2016), p. 25.

[58] See, for example, Ibid.; Kluve, *The Effectiveness of European Active Labor Market Policy*; David Card, Jochen Kluve & Andrea Weber, "Active Labour Market Policy Evaluations: A Meta-Analysis", *The Economic Journal* 120, no. 548 (2010), and John P. Martin and David Grubb, *What Works and for Whom: a Review of OECD Countries' Experiences with Active Labour Market Policies* (Paris: OECD, 2001), p. 41.

[59] Kluve, *The Effectiveness of European Active Labor Market Policy*; Card, Kluve and Weber, "Active Labour Market Policy Evaluations", p. 475.

[60] Boone and Van Ours, *Effective Active Labor Market Policies,* p. 25.

measures are able to fight cyclical unemployment and positively affect the unemployed through better employment prospects, their effectiveness in fighting structural unemployment is questionable.

Many empirical studies have confirmed that "subsidised public sector jobs programmes are generally less successful than other types of ALMPs"[61] and result in "negligible, or even negative program impacts at all time horizons"[62]. Public-work schemes usually result in short-term effects only and this measure is therefore usually considered as a reactive social measure rather than an employment measure with sustainable effects. However, direct job creation can be considered useful and important for many vulnerable groups, especially those who are among the most disadvantaged in the labour market.

Job-search assistance is usually assessed as a consistently cost-effective measure for most target groups[63]. In addition, according to some evaluations, this measure was most likely to produce a positive impact compared to others, especially in the short run[64].

The effectiveness of different ALMPs is seen to depend on several factors. As indicated before, it depends on the time horizons, where some measures are seen to be able to achieve impact in the short-run, while others require longer time periods to bear significant effects. Moreover, targeting is crucial, as some target groups are more likely to access employment through ALMPs than others[65]. For example, ALMP programmes for youth[66] and an older population have less positive results compared to other groups[67]. On the other hand, in his overview of ALMP meta-evaluations, Martin (2014) points out that activation regimes are the most effective for recipients of unemployment insurance (UI) and "recipients of sole-parent benefits when assistance is provided for child care".[68] Last but not least, while research suggests that "ALMP spending does reduce unemployment and long-term unemployment,"[69] current evidence on

[61] Card, Kluve & Weber, "Active Labour Market Policy Evaluations", p. 475; Kluve, *The Effectiveness of European Active Labor Market Policy*, p. 27; See also Martin and Grubb, *What Works and for Whom*, p. 41.

[62] David Card, Jochen Kluve and Andrea Weber, *What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations [IZA DP No. 9236]* (Bonn: IZA, 2015), p. 24.

[63] Robert G. Fay, *Enhancing the Effectiveness of Active Labour Market Policies: Evidence from Programme Evaluations in OECD Countries [OECD Labour Market and Social Policy Occasional Papers No. 18]* (Paris: OECD Publishing, 1996), p. 30.

[64] Bredgaard, "Evaluating What Works for Whom in Active Labour Market Policies", p. 441.

[65] See Kluve, *The Effectiveness of European Active Labor Market Policy*.

[66] See also and compare: Kluve, *The Effectiveness of European Active Labor Market Policy*.

[67] Card, Kluve and Weber, *What Works?,* p. 24. See also Fay, *Enhancing the Effectiveness of Active Labour Market Policies,* p. 31; Bredgaard, "Evaluating What Works for Whom in Active Labour Market Policies", pp. 440-443.

[68] Martin, *Activation and Active Labour Market Policies in OECD Countries*, pp. 29-30.

[69] Ibid, p. 11.

the impact and effectiveness of ALMPs cannot be generalised to all economies. Usually, outcomes of ALMPs are seen to be influenced by various social and economic factors, including the general economic setup and institutional environment of the country, the domestic regulatory framework, the education system, labour market characteristics, as well as the general design of labour market policies.

Considering that such differences in context may result in different levels of effectiveness of particular measures, some authors stress the importance of well-established mechanisms of monitoring and evaluation of ALMPs as the key instruments for the review of their efficiency and effectiveness, usually conducted by employment agencies and other institutions that implement ALMPs. While the monitoring process should provide descriptive data on the success of implementation of particular programmes, or programme outputs against set targets according to main indicators,[70] evaluation mainly seeks to determine whether an individual measure was successful or not[71]. This may usually be achieved by using process evaluation, which is focused on stages of formulation and implementation and aims to assess whether and why programme targets/outputs are reached or not, and impact evaluation, oriented towards the measurement of the outcome or effects of the programme as compared to what would have occurred without it.[72]

In any case, despite mixed evidence on the effectiveness of ALMPs in different socioeconomic environments, there is a broad consensus that such policy measures can challenge unemployment and positively affect labour market performance.

[70] E.g. the number of participants, expected and occurred costs, the completion rate, employment rates reached as part of the programme, qualifications received during the programme, etc. Gaëlle Pierre, *A Framework for Active Labour Market Policy Evaluation* (Geneva: International Labour Office, 1999).

[71] Ibid.

[72] Ibid, p. 6.

3.

An Overview of Labour Market Performance in Albania, BiH and Macedonia

Labour markets in Albania, BiH and Macedonia face a number of challenges. They are characterised by deep structural imbalances and a high presence of structural unemployment in overall unemployment. The roots of such imbalances can be found in several factors, including a lack of regional mobility, deindustrialisation of these economies during the transition period and the resulting mass unemployment of low-skilled and hard-to-adapt labour, or weak links between education systems and industry requirements[73]. Finally, a significant presence of the so-called grey economy, i.e. employment in informal labour markets[74], is a common issue in all three countries. Such circumstances are further exacerbated by weak labour market performance, as illustrated below.

Unemployment trends are worrisome in all three countries. Unemployment rates are chronically high and have not dropped significantly in recent years in any of the countries. Unemployment rates are especially high in BiH, having oscillated between 27.2% and 28% in the 2010–2015 period, and having dropped to 25.4% in 2016[75]. In Macedonia, the unemployment rate has been slightly falling in the past few years and was 26.1% in 2015[76]. The unemployment rate in Albania is lower than in the other two countries; however, unemployment has generally been increasing in the past years (See Figure 1). For the sake of comparison, the average unemployment rate in the EU28 was 9.4%[77] and 6.8% in the OECD in 2015[78].

[73] See more in: Mihail Arandarenko and Will Bartlett eds., *Labour Market and Skills in the Western Balkans* (Belgrade: FREN - Foundation for the Advancement of Economics, 2012); Mojsoska-Blazevski, *Challenges to Successful Employment Policy in the Region*; Kovtun et al., *Boosting Job Growth in the Western Balkans.*

[74] See ibid.

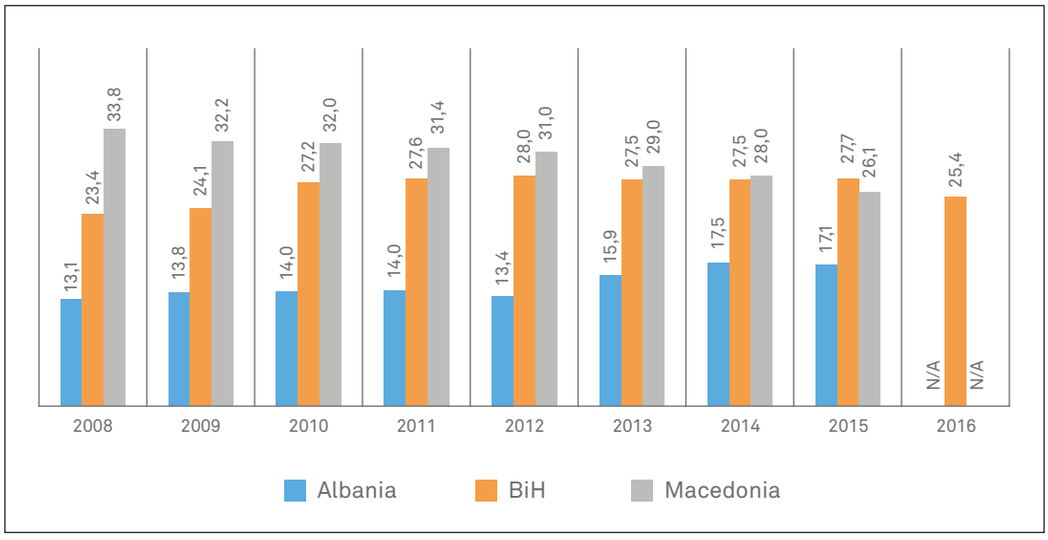
[75] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2016: Final Results* (Sarajevo: ASBiH, 2016) and Labour Force Surveys for the period 2010-2015, available at: https://goo.gl/uY9hS8 (Accessed on October 31, 2016).

[76] State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015* (Skopje: State Statistical Office, 2016).

[77] EUROSTAT, "Unemployment Rate by Sex, Age and Nationality (%)".

[78] OECD Data, "Unemployment Rate".

Figure 1: Unemployment rates (15+) in Albania, BiH and Macedonia (2008–2016) according to Labour Force Surveys[79]



Sources: Albanian Institute of Statistics (INSTAT), Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia[80]

There is a significant portion of long-term unemployment in the structure of the total unemployment in these countries. According to data from 2015, circa 82% of the unemployed in BiH and Macedonia, and 66% in Albania were looking for a job for 12 months or longer[81]. Although long-term unemployment in EU28 is also considered to be alarmingly high at 48.1%[82], on average, it is still much lower than in these three WB countries. The portion of long-term unemployment in total unemployment in the OECD was 33.8% in 2015[83].

[79] Integral LFS results for BiH are being published in mid-year for a given year (the survey was conducted in April), while those in Macedonia and Albania are always published in the coming year. Therefore, the results of the LFS for BiH for 2016 are integrated into chart, while the results for the other two countries are not available.

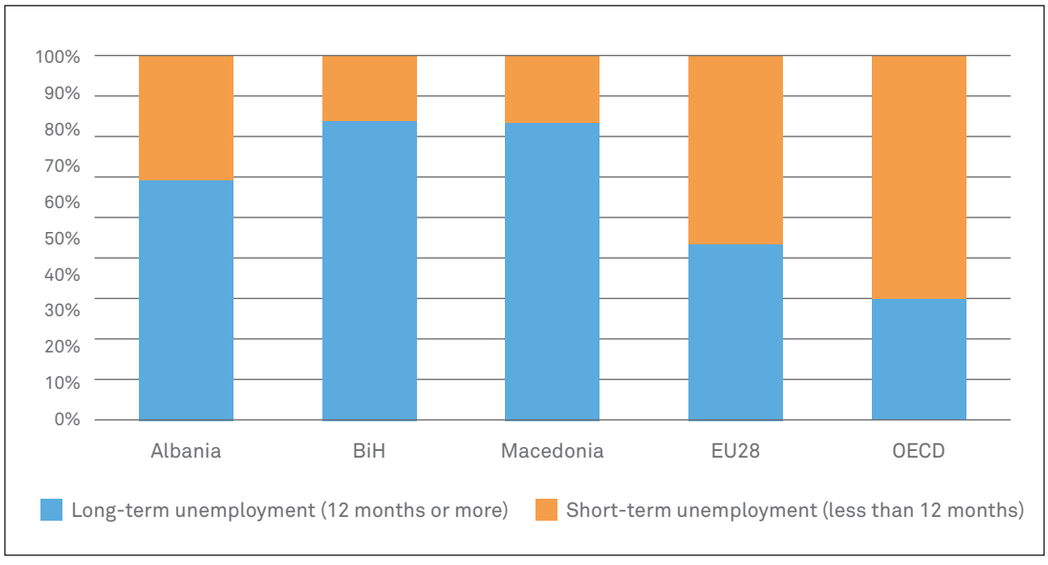
[80] Albanian Labour Force Surveys for the period 2008 - 2015. All documents available at: https://goo.gl/SJeJfO (Accessed on December 8, 2016); BiH Labour Force Surveys for the period 2008-2016. All documents available at: http://goo.gl/5yWw4i (Accessed on December 8, 2016); Macedonian Labour Force Surveys for the period 2008 - 2015. All documents available at: https://goo.gl/vY2fup (Accessed on December 8, 2016).

[81] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2015: Final Results*; State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015*; Albanian Institute of Statistics (INSTAT), *Labour Market: 2015* (Tirana: INSTAT, 2016).

[82] EUROSTAT, "Long-Term Unemployment by Sex - Annual Average"; EUROSTAT, "Unemployment Statistics".

[83] OECD Data, "Long-Term Unemployment Rate".

Figure 2: Share of long-term unemployment in total unemployment in Albania, BiH, Macedonia, EU28 and OECD in 2015



Sources: Albanian Institute of Statistics (INSTAT), Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia, EUROSTAT, OECD Data[84]

High unemployment in these countries is accompanied with constantly low employment: in 2015, the employment rate was 46.2% in Albania[85] and 42.1% in Macedonia[86], while in BiH, it was significantly lower at 31.9%[87]. In the same period, the employment rate in EU28 was 70.1%.[88]

[84] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2015: Final Results*; State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015*; Albanian Institute of Statistics (INSTAT), *Labour Market: 2015*; EUROSTAT, "Long-Term Unemployment by Sex - Annual Average"; OECD Data, "Long-Term Unemployment Rate".

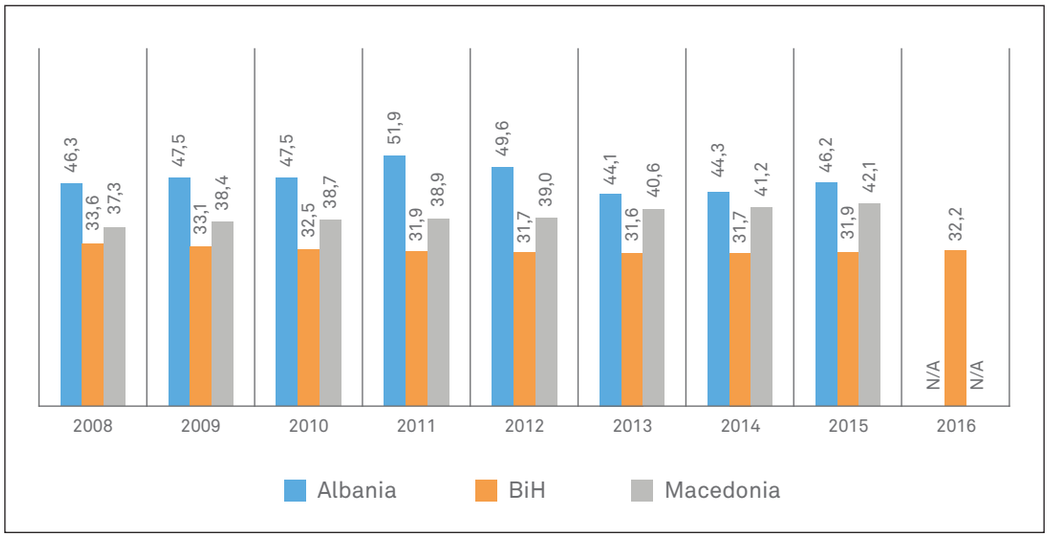
[85] Albanian Institute of Statistics (INSTAT), *Labour Market: 2015*.

[86] State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015*.

[87] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2015: Final Results*.

[88] EUROSTAT, "Labour Market and Labour Force Survey (LFS) Statistics".

Figure 3: Employment rates (15+) in Albania, BiH and Macedonia (2008–2016) according to Labour Force Surveys



Sources: Albanian Institute of Statistics (INSTAT), Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia[89]

When it comes to the participation of the working age population in the labour force, one can notice that the activity rates (15+ cohort) in Albania (55.7%)[90] and Macedonia (57%)[91] were substantially higher than in BiH (44.1%)[92] in 2015. In that sense, activity rates in Albania and Macedonia are near the average in the EU28 and the OECD countries, where they were 58% and 60%, respectively, in 2014[93].

[89] Albanian Labour Force Surveys for the periods 2008-2015, BiH Labour Force Surveys for the periods 2008-2016, Macedonian Labour Force Surveys for the periods 2008-2015.

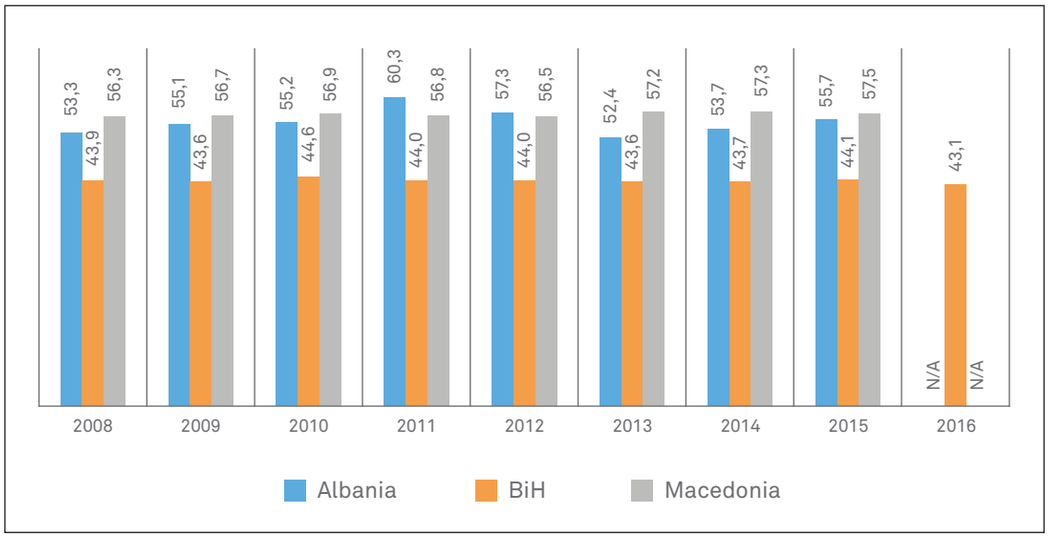
[90] Albanian Institute of Statistics (INSTAT), *Labour Market: 2015*.

[91] State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015*.

[92] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2015: Final Results*.

[93] The World Bank, "Labor Force Participation Rate, Total (% of Total Population Ages 15+) (modeled ILO estimate)", https://goo.gl/KaccWx (Accessed on December 8, 2016).

Figure 4: Activity rates (15+) in Albania, BiH and Macedonia (2008–2016) according to Labour Force Surveys



Sources: Albanian Institute of Statistics (INSTAT), Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia[94]

Moreover, youth unemployment is extremely high in all three countries, ranging from 33.2% in Albania[95] in 2015 (for a 15-29 cohort) to 47,3% in Macedonia[96] and 62,3% in BiH[97] (for a 15-24 cohort) for the same year. Although the data is not mutually comparable given the differences in the considered age ranges, negative labour market performance when it comes to youth is common to all three countries. According to 2015 data, the youth unemployment rate was 20.3% in EU28[98].

[94] Albanian Labour Force Surveys for the period 2008-2015, BiH Labour Force Surveys for the period 2008- 2016, Macedonian Labour Force Surveys for the period 2008-2015.

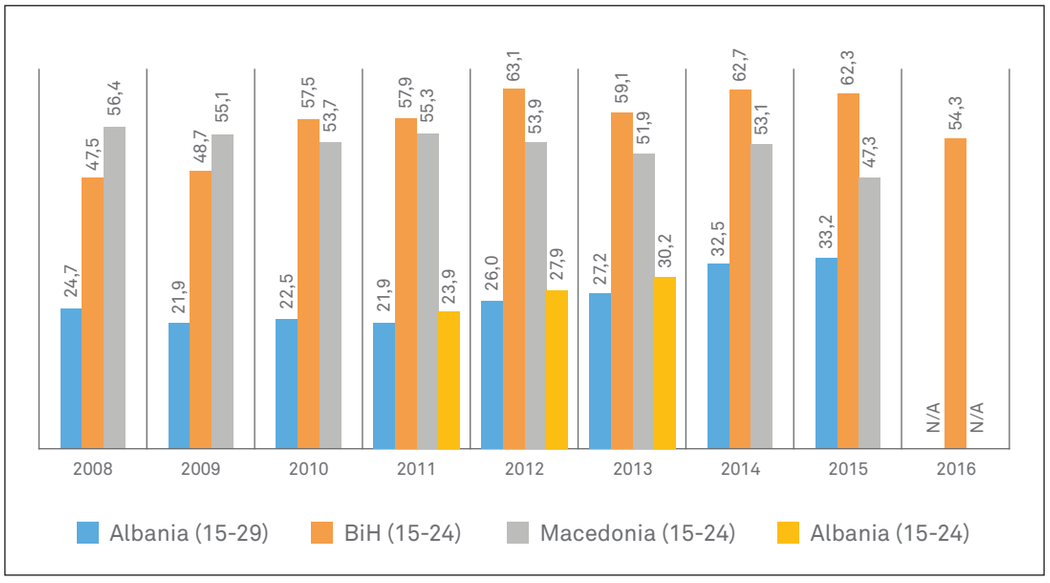
[95] Albanian Institute of Statistics (INSTAT), *Labour Market: 2015*.

[96] State Statistical Office of the Republic of Macedonia, *Labour Force Survey, 2015*.

[97] Agency for Statistics of Bosnia and Herzegovina, *Labour Force Survey: 2015: Final Results*.

[98] EUROSTAT, "Unemployment Statistics".

Figure 5: Youth unemployment rates in Albania[99], BiH and Macedonia (2008–2016) according to Labour Force Surveys



Sources: Albanian Institute of Statistics (INSTAT), Agency for Statistics of Bosnia and Herzegovina, State Statistical Office of the Republic of Macedonia[100]

Poor labour market performance, in addition to other structural imbalances, represents a substantial obstacle to solving the problem of unemployment and creates the need for a complex set of employment policies and measures. Current policies are analysed in further text, with a special emphasis on (1) the policy and institutional framework of ALMPs, (2) their coverage, target groups and targeting approaches, (3) types of measures and programmes, and (4) the evaluation and effectiveness of ALMPs.

[99] Full and consistent data on youth unemployment is provided only for a 15-29 cohort. However, according to available LFS data on youth unemployment for a 15-24 cohort for the period 2011-2013, it can be estimated that youth unemployment rates are usually two to three percentage points higher for a 15-24 cohort, as compared to youth unemployment rates for a 15-29 cohort.

[100] Albanian Labour Force Surveys for the period 2008-2015 and figures; BiH Labour Force Surveys for the period 2008- 2016, Macedonian Labour Force Surveys for the periods 2008-2015.

4.

Active Labour Market Policies in Albania, BiH and Macedonia

4.1. An Overview of Institutional and Policy Frameworks on Employment

4.1.1. Key Laws and Policies on Employment

ALMPs, as a part of wider employment policies, are defined and regulated by relevant laws in all three countries (see Table 3). While the institutional and policy framework for employment is more centralized in Albania and Macedonia, this field is regulated at different administrative levels in BiH due to the complexity of the administrative setup of this country. Therefore, legislation in this area is under the jurisdiction of authorities at the entity level – the Federation BiH (hereafter: FBIH) and Republika Srpska (hereafter: RS) - the District of Brčko (hereafter: BD) and cantons in FBiH.

Table 3: Overview of countries' legislation on ALMPs

Country / administrative unit		Legislation
Albania		• Law on employment promotion[101]
	FBiH	• Law on mediation in employment and social security of the unemployed[102] and related cantonal laws in FBiH • Law on professional rehabilitation, training and employment of persons with disabilities[103]
	RS	• Law on mediation in employment and rights in the event of unemployment[104] • Statutes of the National Employment Service of Republika Srpska[105]
	BD	• Law on employment and rights in the event of unemployment in BD[106]
Macedonia		• Law on employment and insurance in the case of unemployment[107] • Law on employment of disabled persons[108]

While laws in these countries provide a legal basis and obligations for the implementation of employment policies and ALMPs, strategies and guidelines in the field of employment and economic and social development outline the approach, directions and strategic goals of such policies in greater detail. Thus, the National strategy for development and integration[109] as a core document in the process of European integration when it comes to economic and social policy

[101] "Ligj nr. 7995 'Per nxitjen e punesimit'" [Law on Employment Promotion], *Official Gazette of Albania* 22/95, 3/99, 7/02 and 78/06.

[102] "Zakon o posredovanju u zapošljavanju i socijalnoj sigurnosti nezaposlenih osoba" [Law on Mediation in Employment and Social Security of the Unemployed], *Official Gazette of FBiH* 55/00, *41/01, 22/05 and 9/08.*

[103] "Zakon o profesonalnoj rehabilitaciji, osposobljavanju i zapošljavanju lica sa invaliditetom" [Law on Professional Rehabilitation, Training and Employment of Persons with Disabilities], *Official Gazette of FBiH* 9/10.

[104] "Zakon o posredovanju u zapošljavanju i pravima za vrijeme nezaposlenosti" [Law on Mediation in Employment and Rights in the Event of Unemployment], *Official Gazette of RS* 72/12.

[105] "Statut JU Zavoda za zapošljavanje Republike Srpske", [Articles of Incorporation of the Employment Institute], *Official Gazette of the Republika Srpska* 25/01.

[106] "Zakon o zapošljavanju i pravima za vrijeme nezaposlenosti" [Law on Employment and Rights in the Event of Unemployment in BD], *Official Gazette of BD* 33/04, 25/08 and 19/07.

[107] "Закон за вработувањето и осигурување во случај на невработеност" [Law on Employment and Insurance in the Case of Unemployment], *Official Gazette of Macedonia* 153/2012.

[108] "Закон за вработување на инвалидни лица" [Law on Employment of Disabled Persons], *Official Gazette of Macedonia* 87/2005.

[109] Council of Ministers of the Republic of Albania, *Strategjia Kombëtare për Zhvillim dhe Integrim 2015–2020* [National Strategy for Development and Integration 2015–2020] (Council of Ministers of the Republic of Albania, May 2016).

in Albania sets principal objectives for employment promotion through the use of ALMPs[110]. Furthermore, as part of the National strategy for employment and skills 2014-2020[111], ALMPs are positioned as one of the key instruments for achieving defined goals, while concrete measures are defined by annual action plans aligned with the Strategy. After the expiration of various employment and development strategies at different levels of government in BiH, new strategies in this area have not been adopted.[112] The main short-term strategic framework for ALMPs is annually determined by the 'Guidelines for employment policies and active labour market measures in BiH,'[113] published by the Labour and Employment Agency of BiH and created in cooperation with entity and BD employment agencies. In Macedonia, the National strategy for employment of the Republic of Macedonia 2016-2020[114] and the Operational plan for active programs and measures for employment and labour market services 2016[115] make up the core policy framework that determines employment services and programs as to improve the functioning of the labour market, support job creation and increase employability. The Operational plan, in fact, represents the core policy document that regulates the functioning of ALMPs, and is issued and monitored every year

[110] ALMPs in Albania are mainly realized through so-called Employment Promotion Programmes. See more: International Labour Organisation (ILO), *Employment Promotion Programmes in Albania: An Assessment of Its Quality in the Formulation and Implementation Processes (2008-2014)* (ILO, 2014).

[111] The strategy is composed of four strategic objectives: (1) decent work opportunities through effective policies of the labour market, (2) education and vocational training for youth and adults, (3) social inclusion and regional cohesion, (4) analysis of labour market dynamics and sustainability of the performance evaluation system. See more in Ministry of Social Welfare and Youth of the Republic of Albania, *Strategjia Kombëtare për Punësim dhe Aftësi 2014-2020* [National Strategy for Employment and Skills 2014-2020].

[112] Pertains to the following strategies: BiH Directorate for Economic Planning, Strategija razvoja Bosne i Hercegovine [BiH Development Strategy] (BiH Directorate for Economic Planning, May 2010); BiH Council of Ministers, Strategija zapošljavanja u Bosni i Hercegovini 2010.–2014. [Employment Strategy of BiH 2010-2014], (BiH Council of Ministers, April 2010); Federal Ministry of Labour and Social Policy, Strategija zapošljavanja Federacije Bosne i Hercegovine (2009 – 2013) [Employment Strategy of FBiH 2009-2013], (Federal Ministry of Labour and Social Policy, October 2008); Government of Republika Srpska, Strategija zapošljavanja Republike Srpske 2011–2015. godine [Employment Strategy of Republika Srpska 2011-2015], (Banja Luka: Government of Republika Srpska, February 2010). Employment policies are mentioned in the 'BiH Economic Reform Program for 2016-2018,' but at a very general level. BiH Council of Ministers, BiH Economic Reform Program for 2016-2018 (Sarajevo: BiH Council of Ministers, January 2016).

[113] These guidelines are available at: http://goo.gl/XGMuo0 (Accessed on December 15, 2016).

[114] Ministry of Labour and Social Policy of the Republic of Macedonia, Национална стратегија за вработување на Република Македонија Република Македонија 2016-2020 [National Strategy for Employment of the Republic of Macedonia 2016-2020] (Ministry of Labour and Social Policy of the Republic of Macedonia, October 2015).

[115] Ministry of Labour and Social Policy of the Republic of Macedonia, Оперативен план за активни програми и мерки за вработување и услуги на пазарот на трудот за 2016 година [Annual Operational Plan for Active Employment Measures and Labour Services] (Skopje: Ministry of Labour and Social Policy of the Republic of Macedonia, 2016).

by the Ministry for Labour and Social Policy. In addition, a special Action plan for youth employment 2016-2020[116] has been adopted.

4.1.2. The Institutional Framework and Capacities for Employment

The implementation of employment measures, including ALMPs, are predominantly under the jurisdiction of public employment services, in coordination with the relevant ministries in all three countries.

Albanian PES consists of a National Employment Service (hereafter: NES-AL) which operates through 36 employment offices – regional, district and local – and 10 public centres for vocational training. Similarly, Macedonian PES consists of an Employment Service Agency with 30 local offices (hereafter: ESA-MK). In BiH, the entity-level Federal Employment Institute in FBiH (hereafter: FEI-FBiH) exists alongside 10 public employment services at cantonal level in FBiH[117], while the Republika Srpska Employment Institute (hereafter: EI-RS) has six regional branch offices[118]. Moreover, there is an employment institute in the Brčko District (hereafter: EI-BD) and municipal employment bureaus in both entities. The Labour and Employment Agency of BiH at the state level coordinates activities of interest for BiH between entity governments and public employment agencies, cooperates with international institutions in the field of employment and gathers data on the labour market, *inter alia*[119].

Institutional capacities of PES are weak in all three countries, especially in the sphere of human resources. This is primarily reflected in the ratio of employment service officers who work directly with users and beneficiaries, or persons registered as unemployed. Despite its decentralized structure and many offices, the most worrisome ratio is to be found in BiH (see Table 4). According to data obtained through field research, this ratio is higher than 1:2000 in some parts of BiH, such as the Tuzla Canton[120]. On the other hand, the ratio is the lowest in

[116] "Акциски план за вработување млади лица 2016-2020 година" [Action Plan for Youth Employment 2016-2020] (Skopje: 2015).

[117] Responsibilities for the implementation of labour market policies in FBiH are shared between entity and cantonal levels, while ALMPs are primarily regulated at the entity level; the implementation of active measures is mainly under the jurisdiction of FEI-FBiH.

[118] Regional branch offices oversee the work of municipal employment bureaus.

[119] "Zakon o Agenciji za rad i zapošljavanje BiH" [Law on Labour and Employment Agency of BiH], *Official Gazette of BiH,* 21/03 and 43/09, BiH Council of Ministers, Employment Strategy of BiH 2010-2014, p. 25.

[120] Interviews with representatives of PES and relevant ministries in BiH.

Albania. However, ratios in all countries deviate significantly from the 1:100 ratio recommended by the International Labour Organization (ILO)[121].

Table 4: Ratio of PES officers and users

Country		Number of beneficiaries per one PES officer who works directly with users (estimates)
Albania		367
BiH	FBiH	1363
	RS	836
	BD	830
Macedonia		741

Sources: CCI BiH, ESA-MK, NES-AL[122]

An exceptionally high number of users per officer can mainly be explained by high unemployment rates and a large number of formally registered unemployed[123] in these countries, but also the insufficient allocation of staff to employment intermediation services[124].

In all three countries, PES staff is often insufficiently qualified or trained for providing services such as counselling, job intermediation, job search assistance and similar tasks. Together with the poor internal allocation of human resources

[121] See Employment and European Social Fund, *Working Papers on the Contributions of Public Employment Services (PES) to Combating Long-Term Unemployment and Local Development* (Brussels: European Commission, 2001), p. 28; Diego F. Angel-Urdinola, Arvo Kuddo and Amina Semlali, *Public Employment Services in the Middle East and North Africa* (World Bank, 2012), p. 6.

[122] Elmira Pašagić, Siniša Marčić and Adis Arapović, *Efikasnost politika zapošljavanja u Bosni i Hercegovini: prepreke i* šanse [The Efficiency of Employment Policies in Bosnia and Herzegovina: Obstacles and Opportunities] (Sarajevo: Centers for Civic Initiatives, 2013), pp. 12, 32 and 47; Centers for Civic Initiatives (CCI), *Reformska agenda i aktivne politike zapošljavanja u Bosni i Hercegovini: Da li vlade i zavodi zavode ili zapošljavaju nezaposlene?* [Reform Agenda and Active Labour Market Policies in Bosnia and Herzegovina: Do Government and Employment Agencies Register or Employ Unemployed Persons?] (CCI, 2016), p. 5; Authors' estimates based on data provided by Employment Service Agency, Годишен извештај за 2015 година [Annual Report for 2015] (Skopje: Employment Service Agency, 2016) and National Employment Service, Buletini statistikor vjetor 2015 [Annual Statistical Bulletin 2015] (Tirana: National Employment Service, 2016).

[123] Taking into consideration the high presence of informal employment in the economies of these countries, as well as the fact that some services that are not related to employment – such as, for example, health insurance for those registered as unemployed – are usually provided through PES, the number of persons registered as unemployed is considered higher than the number of active jobseekers. See, for example, Hermine Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans* (Vienna: The Vienna Institute for International Economic Studies, 2011), p. 94; Jusić and Numanović, *Flexible Labor in an Inflexible Environment*.

[124] Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans,* pp. 93-94.

at the expense of service-oriented work positions and a great staff workload, this leads to a weaker performance of employment policies in these countries[125].

4.2. Financing and public expenditure on ALMPs

Public expenditure on ALMPs in Albania, BiH and Macedonia is on a generally low level: according to the latest available data, public expenditure on ALMPs in Albania was approx. 0.05% of the country's GDP[126] and about 0.15% of GDP in BiH[127] in 2015, while 0.12% of the country's GDP was allocated in Macedonia for financing ALMPs in 2016[128]. A significant increase in public spending on ALMPs did not occur in any of the three countries between 2012 – 2015[129] (see Figure 6).

[125] Ibid, 95-97. This is also confirmed by some interviewed representatives of PES in BiH.

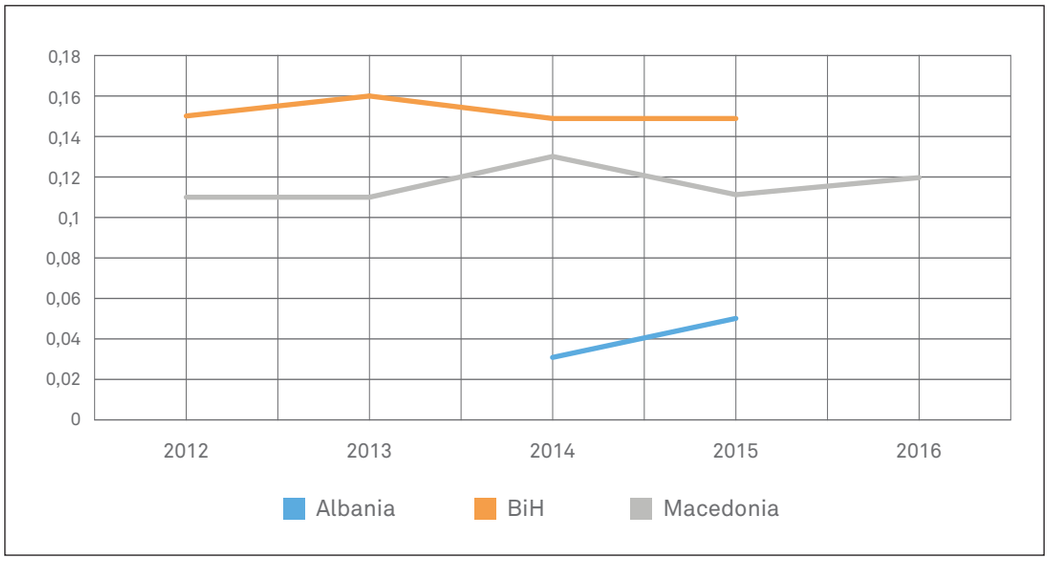
[126] Agenda Institute, *Si të sfidohet papunësia në Shqipëri: Pasurimi dhe përmirësimi i politikave aktive të tregut të punës* [Challenging Unemployment in Albania: Enrichment and Improvement of Active Labour Market Policies] (Agenda Institute, 2016), p. 7.

[127] Authors' estimates based on annual performance reports of FEI-FBiH, EI-RS and EI-BD for 2015: Federal Employment Institute, Izvještaj o radu Federalnog zavoda za zapošljavanje za 2015. godinu [Federal Employment Institute's Annual Report for 2015] (Sarajevo: Federalni zavod za zapošljavanje BiH, 2016); Republika Srpska Employment Institute, Izvještaj o radu JU Zavoda za zapošljavanje Republike Srpske za 2015. godinu [Republika Srpska Employment Institute's Annual Report for 2015] (Pale: Zavod za zapošljavanje Republike Srpske, 2016); Employment Institute of Brčko District of BiH, *Izvještaj o radu za 2015. godinu* [Annual Report 2015] (Brčko: Employment Institute of Brčko District of BiH , 2016).

[128] Finance Think, Активни мерки и политики за вработување: Предизвик на македонскиот пазар на труд [Active Labour Market Policies for Employment: A Challenge for the Macedonian Labour Market], Policy brief (Finance Think, 2016), p. 2.

[129] However, some positive trends in 2016 are anticipated in BiH, where the financing of ALMPs increased significantly due to new economic reform priorities. For instance, the Government of FBiH adopted the 'Decree on the promotion of employment' [Uredba o poticanju zapošljavanja] in 2015, primarily oriented towards employment of youth of up to 30 years of age. Some 25,5 million EUR was planned for these activities in 2016. See Centers for Civic Initiatives, *Reform Agenda and Active Labour Market Policies in Bosnia and Herzegovina*. However, considering that final and integral data for 2016 is still unavailable, more precise estimates cannot be given.

Figure 6: Public expenditure on ALMPs in Albania[130], BiH and Macedonia (% of GDP), 2012 - 2016



Sources: Authors' calculations and estimates for Albania, BiH and Macedonia[131]

Public expenditure on ALMPs in these countries is significantly lower when compared to the averages in EU28 (0.46% of GDP)[132] and OECD (0.6% of GDP)[133] in 2011, the year for which the last aggregate data are available. However, although aggregate data reflect some general trends in public spending on active measures in EU and OECD countries, differences in spending between countries are significant and cannot be easily generalised. For example, Nordic countries spent near or more than 1% of GDP on ALMPs in 2014, while, Chile and the United

[130] Complete data for Albania for the period 2012-2013 are not available.

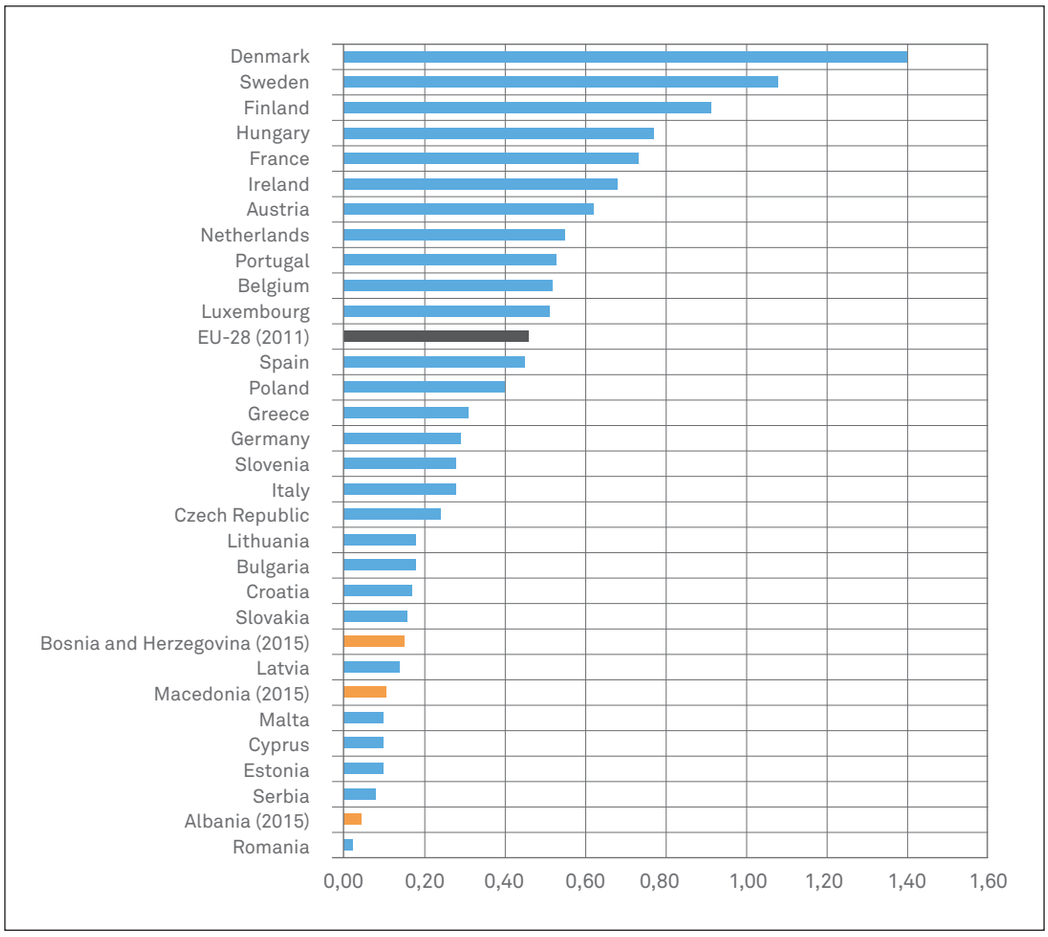
[131] Authors' estimates based on data provided by the National Employment Service, Annual Statistical Bulletin 2015; National Employment Service, Buletini i Tregut të Punës: 2014 [Labour Market Bulletin 2014] (Tirana: National Employment Service, 2015), annual reports on labour market policies of the Labour and Employment Agency of BiH and annual reports by FEI-FBiH, EI-RS and EI-BD: Labour and Employment Agency of Bosnia and Herzegovina, Pregled politika zapošljavanja u Bosni i Hercegovini za 2014. godinu [Employment Policy Review for BiH in 2014] (Sarajevo: Agencija za rad i zapošljavanje, 2015); Labour and Employment Agency of Bosnia and Herzegovina, Pregled politika zapošljavanja u Bosni i Hercegovini za 2013. godinu [Employment Policy Review for BiH in 2013] (Sarajevo: Agencija za rad i zapošljavanje, 2014); Labour and Employment Agency of Bosnia and Herzegovina, Employment Policy Review for BiH in 2012; Federal Employment Institute, Federal Employment Institute's Annual Report for 2015; Employment Institute of the Republika Srpska, Republika Srpska Employment Institute's Annual Report for 2015; Employment Institute of Brčko District of BiH, Annual Report 2015; and annual operational plans for active employment measures and labour services of the Ministry for Labour and Social Policies of the Republic of Macedonia, available at: https://goo.gl/H178oB (Accessed on November 7, 2016).

[132] EUROSTAT, "LMP Expenditure".

[133] OECD iLibrary, "Public Expenditure on Active Labour Market Policies: % of GDP".

States, for example, allocated circa 0.1% of GDP on ALMPs the same year[134]. When compared to EU countries, spending in Albania, BiH and Macedonia is comparable to that of the one third of countries with the lowest public expenditure on active measures (see Figure 7).

Figure 7: Public expenditure on ALMPs in the EU countries (2014) and selected WB countries (% of GDP)



Sources: EUROSTAT, Agenda Institute, authors' calculations and estimates for Albania, BiH and Macedonia[135]

[134] See EUROSTAT, "LMP Expenditure" and OECD Stat, "Public Expenditure and Participant Stocks on LMP".

[135] EUROSTAT, "LMP Expenditure"; Agenda Institute, *Challenging Unemployment in Albania*, p. 7; Authors' estimates based on data provided by the Federal Employment Institute, Federal Employment Institute's Annual Report for 2015; Employment Institute of the Republika Srpska, Republika Srpska Employment Institute's Annual Report for 2015; Employment Institute of Brčko District of BiH, Annual Report 2015; Ministry of Labour and Social Policy of the Republic of Macedonia, Оперативен план за услуги на пазарот на труд и активни програми и мерки за вработување за 2015 година [Annual Operational Plan for Active Employment Measures and Labour Services 2015] (Skopje: Ministry of Labour and Social Policy of the Republic of Macedonia, 2015).

The ratio of public expenditure between passive and active employment measures can be evaluated as satisfactory in all three countries. According to the latest data, the share of expenditures on ALMPs in the total expenditure on labour market policies[136] is about 45% in Albania[137], 36% in BiH[138], and circa 33.5% in Macedonia[139]. Considering that approximately one third of total public expenditure on labour market policies is allocated for active measures in EU28[140], existing expenditure on ALMPs in Albania, BiH and Macedonia is near this share or greater.

ALMPs are mainly financed by national PES in all three countries, with smaller but often inconsistent support from governments budgets. In that sense, current funding schemes for ALMPs are dominantly based on social insurance contributions (i.e. employment-related contributions) that constitute the main portion of PES revenues. ALMPs are almost entirely funded through PES budget in BiH, with occasional "injections" of additional funds by relevant ministries[141]. On the other side, about 36% ALMPs funding in Macedonia comes from the Ministry of Labour and Social Policy[142].

However, the existing contribution-based way of financing ALMPs carries some risks. Although many European countries rely on contribution-based ALMP financing[143], weak labour market performance in these three countries, i.e. low employment, results in limited and instable funds for such measures. Considering that ALMPs are mainly financed from the same source as unemployment benefits and other passive measures, and that such revenues depend directly on labour market trends, the relationship between the amount of available funding and unemployment trends is inverse (i.e. higher unemployment in the labour market leads to lower levels of funding for ALMPs)[144]. Moreover, fluctuations in the financing of ALMPs can be expected in this model of funding due to changes in labour market trends. On the other hand, other sources of funding, such as the general government budget (tax-based sources) and other sources, are used to finance ALMPs to a lesser extent, although these sources can increase ALMP funding and ensure greater stability.

[136] Includes both passive and active measures.

[137] Agenda Institute, *Challenging Unemployment in Albania*, p. 7.

[138] Authors' calculation based on data provided in: Viljem Spruk, *Statistical Bulletin No. 5* (Ljubljana: Employment Service of Slovenia, 2015), p. 67. According to some interviewees, it will amount to more than a half of total expenditure in 2016, having in mind the expanded financing and scope of these programmes in 2016.

[139] Authors' estimates based on data provided by Employment Service Agency, Annual Report for 2015.

[140] Authors' calculation based on data provided in: EUROSTAT, "LMP Expenditure".

[141] Muamer Halilbašić et al., *Dijagnoza tržišta rada* [Labour Market Diagnosis]. (Sarajevo: Ekonomski institut Sarajevo, 2015), p. 90.

[142] Finance Think, *Active Labour Market Policies for Employment*, p. 3.

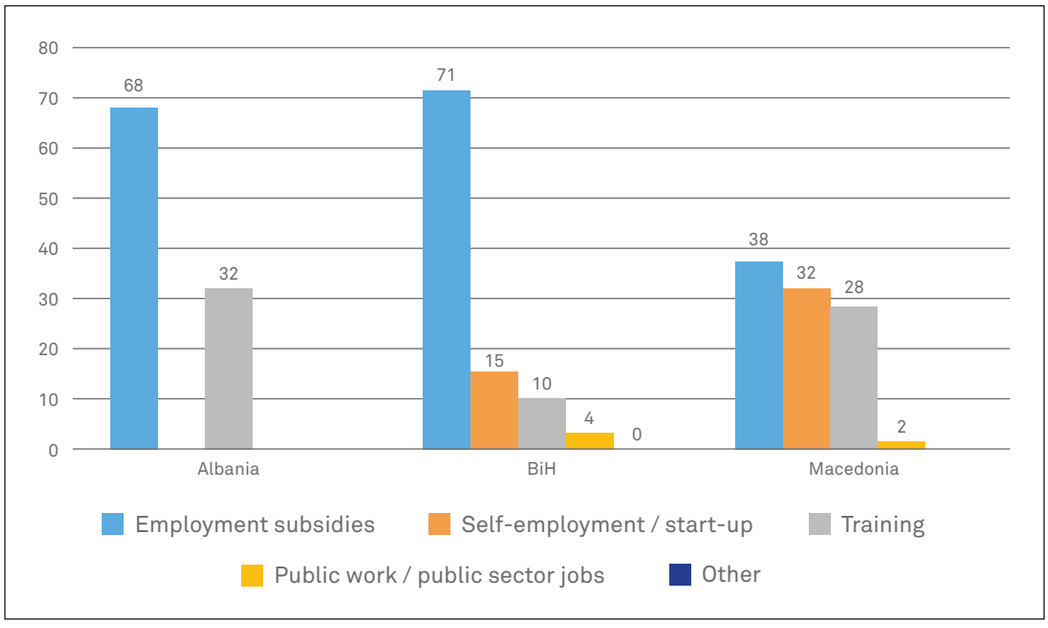
[143] See, for example, Günther Schmid and Bernd Reissert, "Do Institutions Make a Difference? Financing Systems of Labor Market Policy", *Journal of Public Policy* 8, no. 2 (1988), pp. 125-149.

[144] See Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, pp. 44-47.

4.3. Active Labour Market Measures and Programmes

The portfolios of ALMP programmes in all three countries are quite limited[145]. In general, ALMPs in these countries are dominantly oriented towards employment subsidy measures, particularly in Albania and BiH where more than two thirds of the ALMP budget such programmes (see Figure 8)[146].

Figure 8: The estimated share of specific ALMP measures in the total expenditure on ALMPs in Albania[147], BiH and Macedonia (2015)[148]



Sources: Agenda Institute, authors' estimations based on country-specific official documents for BiH and Macedonia[149]

[145] While comparison between the countries is made difficult by the differences in classifying, collecting and presenting data and information on ALMPs in all three countries, in this chapter we outline the general contours of the types of ALMPs that are used.

[146] See also Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, p. 75.

[147] The ALMP portfolio in Albania is quite limited and does not include start-up incentives and public work schemes. See more in: ILO, *Employment Promotion Programmes in Albania.*

[148] The presented figures for Albania and BiH are based on data on realised spending, while the figures for Macedonia are based on data on the planned spending.

[149] Agenda Institute, *Challenging Unemployment in Albania*, p. 7. Authors' estimates based on data provided in: Federal Employment Institute, Federal Employment Institute's Annual Report for 2015; Employment Institute of the Republika Srpska, Republika Srpska Institute's Annual Report for 2015; Employment Institute of Brčko District of BiH, Annual Report 2015; Ministry of Labour and Social Policy of the Republic of Macedonia, Annual Operational Plan for Active Employment Measures and Labour Services 2015.

Although some international empirical research has confirmed the effectiveness of employment subsidies, they mainly amortise the effects of cyclical unemployment, while their effectiveness in terms of structural unemployment is quite limited. Having in mind that labour markets of these countries are characterised by structural imbalances, the orientation of ALMPs towards employment subsidies and a high portion of spending on these programmes are not necessarily justified. In addition, existing evidence in these three countries, albeit partial, points to the low cost-effectiveness and insignificant effects on the improvement of participants' labour market position when it comes to employment subsidy programmes (see Chapter 4.5).[150] Another potential risk of employing these measures in such contexts may be that they can become a type of financial transfer that employers use as a means to lower labour costs, without having a substantial impact on labour market performance[151].

Training programmes are designed differently and present to different degrees in these three countries. Thus, Albania implements on-the-job training[152] that is combined with the possibility of employment, and this measure has, according to existing evaluations in Albania, proven to be the most effective one out of implemented ALMP measures (see Chapter 4.5). In addition to this programme, which is implemented within the framework of employment policies, vocational trainings[153], which are not an integral part of employment programmes, are implemented separately by centres for vocational training[154]. Training measures are the most common in Macedonia and account for more than one third of ALMP funding; they also include more than half of participants in ALMPs. The portfolio of training measures in Macedonia is diversified and includes a variety of specific programmes[155]. In that sense, one can say that these two countries pay considerably more attention to the development of human resources and labour force skills and competitiveness than that is the case in BiH, where these measures are still poorly developed and underrepresented. Although BiH is facing structural and long-term unemployment, a severe mismatch between supply and demand for specific skills sought by the labour market, as well as

[150] See also Ibid.

[151] See, for example, Halilbašić et al., *Labour Market Diagnosis*.

[152] ILO, *Employment Promotion Programmes in Albania.*

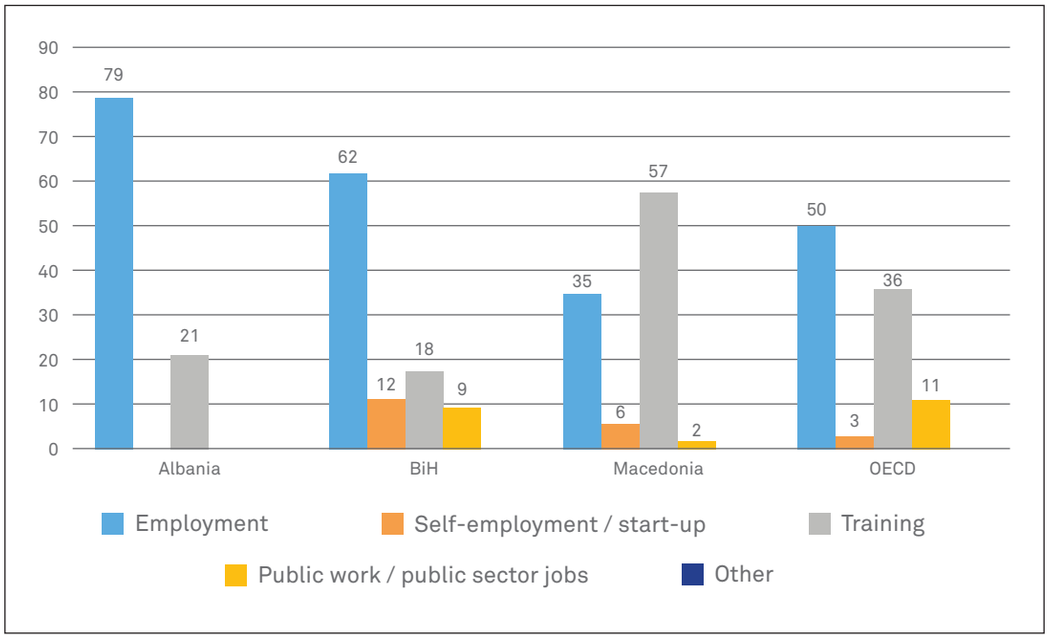
[153] Considering that vocational trainings are not a part of employment promotion programmes (or ALMP programmes) in Albania, they were not included in calculations presented in Figure 8 and Figure 9.

[154] ILO, *Employment Promotion Programmes in Albania.*

[155] See, for example, Ministry of Labour and Social Policy of the Republic of Macedonia, Annual Operational Plan for Active Employment Measures and Labour Services 2015.

a lack of qualified labour force[156], less than one tenth of the total spending on ALMPs is dedicated to training measures (see Figure 8). Moreover, only a small share of participation in ALMP programmes relates to training (see Figure 9). In addition, infrastructural capacities for the implementation of these measures are considered to be insufficient in BiH.[157] Training programmes in BiH are mainly combined with employment schemes, which is recognized as a good and effective practice (see Chapter 4.4); this may be explained by the fact that the accompanying employment affects - the preservation and further improvement of the skills acquired through training - raises the general productivity and competitiveness of workers.

Figure 9: The estimated participation in particular measures as the rate of total participation in ALMPs in Albania, BiH and Macedonia (2015)[158]



Sources: Authors' estimates based on country-specific and regional bulletins for Albania, BiH, Macedonia and OECD[159]

[156] See, for example, Will Bartlett et al., *From University to Employment: Higher Education Provision and Labour Market Needs in the Western Balkans: Synthesis Report* (Luxembourg: Publications Office of the European Union, 2016) and Jusić and Numanović, *Flexible Labor in an Inflexible Environment.*

[157] Ibid.

[158] The presented figures for Albania and BiH are based on data on achieved participation, while the figures for Macedonia are based on data on the planned participation.

[159] National Employment Service, Annual Statistical Bulletin 2015 and Agenda Institute, *Challenging Unemployment in Albania*, p. 10; Spruk, *Statistical Bulletin No. 5*, p. 67; Ministry of Labour and Social Policy of the Republic of Macedonia, Annual Operational Plan for Active Employment Measures and Labour Services; OECD Stat, "Public Expenditure and Participant Stocks on LMP".

Self-employment measures are currently unevenly represented in these three countries. While, for example, start-up programmes are currently not present in Albania[160], in Macedonia, they account for about a third of the funds spent on ALMPs. However, despite the high expenditure, coverage by these measures is rather small in Macedonia, which indicates that this is an expensive measure 'per capita'. Some persons interviewed as part of the research for this study in Macedonia underlined that the existing design is inadequate, since it is questionable whether it provides a sufficient financial foundation for starting a business[161]. Nevertheless, available evidence in Macedonia and BiH points to a significant rate of sustainability of businesses created through such programmes when they are adequately targeted (see Chapter 4.5).

Public works and job creation in the public sector in these countries are not widely used ALMP measures and, generally, less than one fifth of the total funding and participation is assigned to these measures. This is in line with international trends, where public works and job creation also make up a small share in ALMPs, and are mainly designed as a welfare measure aimed at the most vulnerable groups and categories with the lowest prospects for employment in the formal labour market. Therefore, moderate expenditure and participation in public work schemes in BiH and Macedonia can be assessed as justified considering that such measures cannot substantially contribute to overcoming labour market gaps, but can nevertheless serve as important welfare measures. Having in mind this social dimension of public work schemes and their potential to include the most vulnerable categories into temporary employment, it is not clear why these measures have been neglected in Albania.

Finally, labour market matching (job brokerage) services[162] need further improvement in all three countries. These measures are usually considered as a crucial segment for ensuring the efficiency of ALMP programmes and are generally considered to be cost-effective[163], having in mind positive effects in the short run and the possibility to reach high coverage at lower costs compared to other active measures. However, although certain improvements in the provision of these services in these countries have been noted[164], primarily in terms of the increased usage of 'job brokerage' measures and the development of key instruments such as individual plans for employment, job clubs, individual and

[160] ILO, *Employment Promotion Programmes in Albania.*

[161] Interviews with some participants in a start-up measure in Macedonia.

[162] Since it was not possible to collect accurate data on expenditure and coverage when it comes to these measures, they are not further elaborated in this study. Such data is not clearly presented in some of the annual reports of employment agencies nor available in other sources in any integral form.

[163] Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*.

[164] Ibid.

group counselling and similar, they are still not sufficiently represented and properly integrated with various ALMP programmes.

Taking into account the structure of funding and participation in ALMPs, one may conclude that activation policies in these three countries are primarily oriented towards the 'demand side' in the labour market. In this sense, dominant employment programmes are mainly implemented through employers' applications to PES to co-finance salaries or contributions for newly-employed workers. In addition to such measures, start-up programmes that aim to encourage entrepreneurship and the creation of new jobs make up a substantial part of measures in BiH and Macedonia. On the other side, with the exception of Macedonia, which excels in this area in comparison to other two countries, policies focused on the 'supply side' in the labour market, or measures of long-term development of human capital that seek to overcome the structural gaps in the labour market, are underdeveloped and neglected. Job brokerage services are generally not recognized as a key instrument in encouraging and guiding active job search, or as a crucial link between the unemployment register and active labour market programmes. In other words, some important components of modern activation policy are still missing from the ALMP portfolio in Albania, BiH and Macedonia.

4.4. Coverage and Targeting

Labour force coverage by ALMPs is rather low in all three countries (see Table 5). For the sake of comparison, the average coverage rate of unemployed person by ALMPs in the EU[165] was 41.65% and 46.3% in OECD countries for which the data is available. The average coverage rate of the total labour force by these programmes was 4.4% in the EU and 3.7% in the OECD.[166]

[165] Data for Greece and UK are not available.

[166] Authors' calculation based on data provided in EUROSTAT, "Labour Market Policy: Main Tables" and OECD data, https://goo.gl/3e5640 (Accessed December 8, 2016).

Table 5: Coverage by ALMP measures in Albania, BiH, Macedonia, the EU and OECD countries

Country / region	Coverage rate of unemployed persons (%)	Coverage rate of total labour force (%)
Albania (2015)	13.5	1.5
BiH (2014)	2.4	1.0
Macedonia (2015)	6.5	1.7
EU (2014)[167]	41.7	4.4
OECD (2014)[168]	46.3	3.7

Sources: Agenda Institute[169], authors' estimates based on country-level and regional statistical bulletins for BiH and Macedonia, EUROSTAT, OECD[170]

While the low coverage rate of unemployed persons by ALMPs can partially be explained by enormously high unemployment, especially in BiH and Macedonia, a simple comparison of coverage rates of the total labour force in these WB countries with the average rates in EU and OECD countries suggests that the number of participants included in such programmes is too narrow and, moreover, inadequate having in mind the numerous labour market challenges that these economies are facing. In that sense, these three countries are comparable to the one third EU countries with the lowest coverage rates of the labour force by ALMPs (see Figure 10).

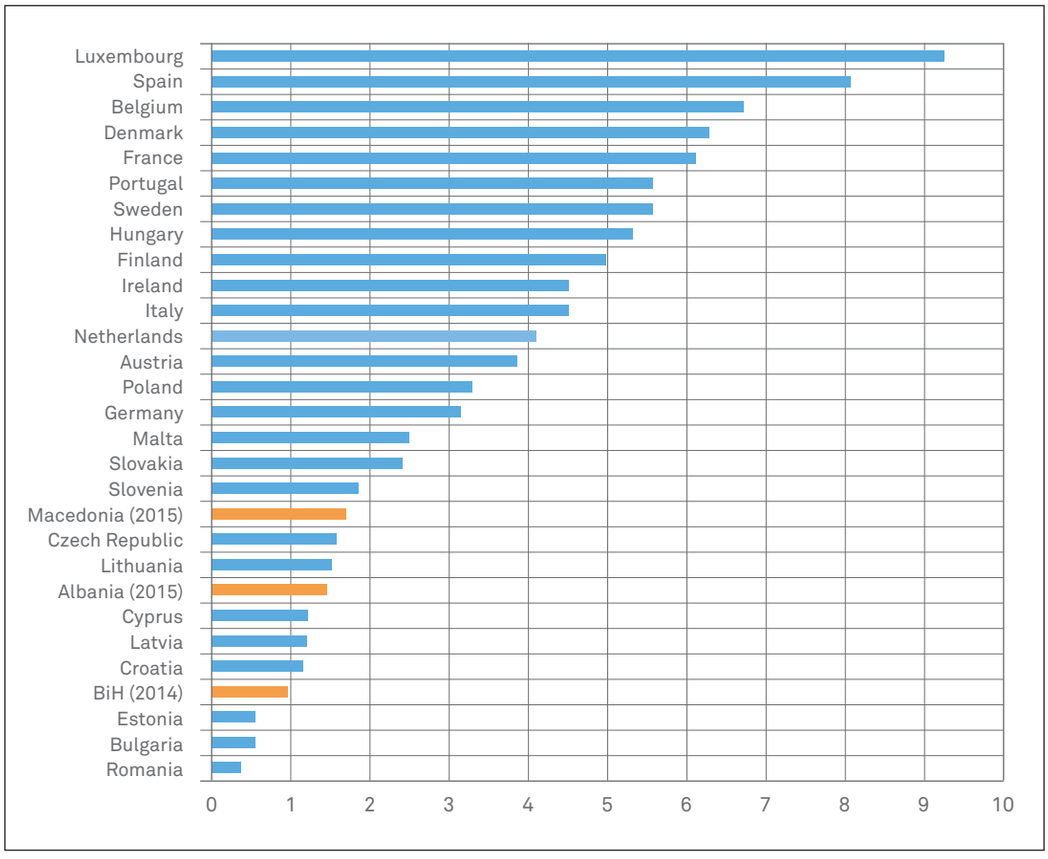
[167] EU countries excluding Greece and UK, for which data is not available.

[168] Data are available for 19 of a total of 35 OECD countries.

[169] Agenda Institute, *Challenging Unemployment in Albania*, p. 7.

[170] Spruk, *Statistical Bulletin No. 5*; Labour and Employment Agency of Bosnia and Herzegovina, Statistical information sheets No. 31 – No. 34, available at: https://goo.gl/92t4HD (Accessed December 8, 2016); Ministry of Labour and Social Policy of the Republic of Macedonia, Annual Operational Plan for Active Employment Measures and Labour Services; State Statistical Office of the Republic of Macedonia, "Working Age Population by Economic Activity, Gender and Educational Attainment, Annual"; EUROSTAT, "LMP Participants by Type of Action - Summary Tables"; and "Employment and Unemployment (Labour Force Survey)"; OECD Stat, "Public Expenditure and Participant Stocks on LMP" and OECD Data, https://goo.gl/lfnYJU (Accessed December 8, 2016).

Figure 10: Coverage rates of total labour force in EU countries (2014)[171], Albania (2015), BiH (2014) and Macedonia (2015)



Sources: Authors' estimates based on EUROSTAT data and country-level and regional statistical bulletins for BiH and Macedonia,[172] Agenda Institute[173]

In all three countries, candidates eligible for a particular programme are defined by specific criteria provided through a public call. In that sense, all persons registered as unemployed from a given target group usually have the right to apply and participate in ALMP measures. However, a significant portion of ALMP measures in all three countries do not define any subgroup, but instead target all unemployed persons who are actively seeking a job[174].

[171] Data for United Kingdom and Greece are missing. Data provided for EU countries refer to 2014.

[172] Spruk, *Statistical Bulletin No. 5*; Labour and Employment Agency of Bosnia and Herzegovina, Statistical information sheets No. 31 – No. 34; Ministry of Labour and Social Policy of the Republic of Macedonia, Annual Operational Plan for Active Employment Measures and Labour Services; State Statistical Office of the Republic of Macedonia, "Working Age Population by Economic Activity, Gender and Educational Attainment, Annual"; EUROSTAT, "LMP Participants by Type of Action - Summary Tables" and "Employment and Unemployment (Labour Force Survey)".

[173] Agenda Institute, *Challenging Unemployment in Albania*, p. 7.

[174] See Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, p. 53.

Moreover, targeting is not sufficiently personalised. Participation in ALMP programmes is mainly based on facultative applications to open calls, while there is no well-established institutional mechanism for individual guidance through the employment process that could steer participation in these programmes in accordance to the determined needs of the unemployed person. In addition, effective targeting mechanisms for better inclusion of recipients of social assistance and unemployment benefits are still under-developed[175], although establishing a link between the social protection system and activation measures should be the key segment of the successful activation strategies[176].

Targeting still leaves significant room for improvement. ALMP targeting mechanisms in Albania insufficiently reach vulnerable groups such as the Roma, women, youth and other groups that have difficulties accessing employment, which results in limited inclusion of these groups in employment schemes and the labour market[177]. In that sense, vulnerable groups are usually "treated as any other group and often times they are not even identified within the program"[178]. Furthermore, ALMP programmes especially designed for particular groups, such as young persons and female job seekers, are lacking[179] or are underdeveloped as in case of female job seekers from specific groups (e.g. Roma women, former trafficked women, women with disabilities etc.) which consume circa 3% of total public expenditure on ALMPs. Earlier research and evaluation of ALMPs in Albania has placed emphasis on the necessity of improving targeting[180].

In BiH, current targeting by ALMPs is frequently rated as inadequate and inefficient, given that it often does not reach categories that have the lowest chances of finding employment[181]. In other words, although there were some improvements regarding the diversification of ALMP target groups, the most vulnerable and hard-to-employ categories, such as low-skilled persons, women who are heads of households and others, are insufficiently targeted through employment programmes[182]. For example, despite the fact that women's employment rate is extremely low at around 22%[183], there were no programmes that pertained especially to women in 2015, while some 40% of covered

[175] See also Ibid.

[176] See Jusić and Numanović, *Flexible Labor in an Inflexible Environment*, pp. 80-84 and Numanović, *Social Assistance System in BiH*, pp. 2-4.

[177] See more in ILO, *Employment Promotion Programmes in Albania,* pp. 22-25.

[178] Ibid. p. 23.

[179] Ibid. p. 27.

[180] See Ibid.

[181] BiH Council of Ministers, Employment Strategy of BiH 2010-2014, p. 31.

[182] Halilbašić et al., *Labour Market Diagnosis,* p. 96.

[183] Agency for Statistics of Bosnia and Herzegovina, "Labour Force Survey: 2016: Final Results" (Sarajevo: ASBiH, 2016).

persons by ALMP measures are female job seekers[184]. On the other hand, a strong emphasis has been placed on war-related categories[185], which, as some persons interviewed for this study noted, means that the selection of target groups and targeting processes in BiH are not only based on socio-economic, but also on political criteria as to protect politically significant categories. The economic justification for targeting some of the war-related categories remains questionable. Finally, employment subsidy programmes usually target young people with higher education, who represent a highly employable category[186]. This can, in turn, result in a deadweight effect. Although one of the goals of the now expired BiH Development Strategy was to improve the targeting of ALMP measures[187], it appears that substantial steps have not been undertaken in this regard.

Similar to the other two countries, the ALMP targeting strategy is still in a development phase in Macedonia, with a limited focus on labour force characteristics and an absence of targeting by region. Although women's inactivity rates are high and represent one of the main challenges that the labour market is facing, only 15% of total measures are designed for women, out of which 88% represent training measures[188]. Moreover, only 4% of the total measures clearly target low-skilled persons.[189] While workers who have completed primary school face the highest unemployment rates, there are almost no job creation measures designed specifically for them. Targeting is better when it comes to age: even 30% of ALMPs target youth[190]. Improved targeting of ALMPs was recommended by the EU Commission in its 2015 annual report on the country's EU accession progress.

[184] Authors' estimates based on data provided by Federal Employment Institute, Federal Employment Institute's Annual Report for 2015; Employment Institute of the Republika Srpska, Republika Srpska Employment Institute's Annual Report for 2015.

[185] See Employment policy reviews for BiH published by the Labour and Employment Agency of BiH, available at: https://goo.gl/E1HuC5. See also Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, p. 54. War-related categories include disabled war veterans, demobilized soldiers, children of demobilized soldiers, family members of fallen soldiers, civilian victims of the war, etc.

[186] Halilbašić et al., *Labour Market Diagnosis*; BiH Employment Strategy 2010-2014; BiH Directorate for Economic Planning, Strategija socijalnog uključivanja BiH 2010–2013. godine [Social Inclusion Strategy of Bosnia and Herzegovina 2010–2013] (BiH Directorate for Economic Planning, 2010).

[187] BiH Directorate for Economic Planning, BiH Development Strategy for 2010-2013, p. 74.

[188] Authors' estimates based on data provided in annual operational plans for active employment measures and labour services, of the Ministry for Labour and Social Policy, available at: https://goo.gl/H178oB (Accessed on December 6, 2016).

[189] Ibid.

[190] Ibid.

4.5. Effectiveness and Evaluation of ALMPs

An important precondition for improved ALMP targeting and overall success are established evaluation mechanisms that are able to precisely identify key shortcomings and obstacles in the design of particular active measures. As in other Western Balkans countries[191], evaluation mechanisms for ALMPs are developed only in embryotic form in Albania, BiH and Macedonia.

The current approach to evaluation of implemented active labour market programmes by PES provides only basic insights into their effectiveness in relation to the outputs of these programmes[192], but not to their outcomes, including substantial and long-term impacts on the labour market. In that sense, the object of measurement is usually the number of employed or successfully trained participants within the total number of participants of ALMP programmes up to a year after their completion. Existing evaluations usually do not take into account the possible occurrence of a deadweight effect and other forms of possible distortions of market principles by ALMPs (see Chapter 2.3), and do not consider the employment status of participants in a long-term perspective.

Moreover, evaluations of ALMP programmes conducted by employment agencies in these countries are predominantly internal, and, thus, results are for the most part not publicly available. On the other hand, there is a lack of external, independent research in this field that could provide reliable findings on the effectiveness and impact of ALMPs on the labour markets of these three countries, especially in BiH, where such evidence is almost entirely missing. In general, complete and systematic data on the effectiveness of these measures in Albania, BiH and Macedonia are not available[193]. Some partial evidence from all three countries is recounted in further text.

While there is no comprehensive evidence of the general impact of ALMPs on the economies of these three countries, some evaluations conducted in Albania have shown an overall positive impact of ALMP measures in terms of an increase in employment and income[194]. Overall impacts of ALMPs on BiH and Macedonian labour markets are unknown. However, a positive correlation between the annual growth of participants in ALMPs and the employment rate in Macedonia has been shown[195].

On the other hand, although there is no evidence of the overall impact of BiH ALMPs on the country's labour market, existing data show significant short-term employment effects of ALMP programmes. Thus, estimates provided by FEI-FBiH

[191] See Mojsoska-Blazevski, *Challenges to Successful Employment Policy in the Region*, p. 9.

[192] Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, pp. 47-51.

[193] See Ibid.

[194] ILO, *Employment Promotion Programmes in Albania*, p. 22.

[195] Finance Think, Active Labour Market Policies for Employment, p. 6.

suggest that approximately 60% of participants employed through various ALMP programmes remain in employment after programme completion[196]. In addition, according to the latest data provided by EI-RS, the success of the programmes in terms of remaining in employment varies between 52% and 78%[197]. Based on such data, one can calculate that approximately 70%[198] of participants, on average, remain in employment after the expiration of the employment period defined by a given programme[199]. However, this is no evidence of the long-term effects of these measures and the sustainability of jobs generated or supported through these programmes.

When it comes to particular measures, it appears that *employment subsidies* in these countries yield moderate or no effects in terms of improving the position of participants on the labour market, at least according to the limited evidence available. An evaluation of Albanian employment subsidy programmes for the period 2010-2011 has shown that "more than half of the participants did not maintain the job for one year"[200]. In that sense, it is possible to say that this measure shows moderate effects at high cost and is generally less effective when compared to training measures[201]. According to one evaluation, wage subsidy programmes in Macedonia were also found to have no positive effect for the participants and even worsened their position, potentially because of the assumption that "employers are using this program to address only short term needs of the workers" [202]. The effects of employment subsidies in BiH are unknown due to a lack of recent and available evaluations in this field.

Unlike employment subsidy programmes, *training measures* mainly show positive effects in all three countries. According to evaluations, on-the-job training appears to be the most successful programme in Albania, as this measure has been shown to result in the highest rates of increase in employment.[203] Positive evidence on the effectiveness of training measures was also found in Macedonia, where training for a known employer[204] appears to have

[196] Federal Employment Institute, Federal Employment Institute's Annual Report for 2015, p. 47.

[197] Republika Srpska Employment Institute, Republika Srpska Employment Institute's Annual Report for 2015, pp. 42-45.

[198] Unweighted average.

[199] There is no information on when the evaluation of employment status was conducted. However, it is possible to assume that the information on employment statues were collected six months after the programme completion. According to some representatives of PES, this time-frame is most commonly used when evaluating PES programmes.

[200] ILO, *Employment Promotion Programmes in Albania*, p. 22.

[201] Ibid.

[202] Nikica Mojsoska-Blazevski and Marjan Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia: Key Findings* (Budapest: International Labour Organization, 2015).

[203] ILO, *Employment Promotion Programmes in Albania,* p. 22.

[204] Pertains to training programmes designed for conrete companies in accordance with their needs.

made a real difference for the participants, as evaluations show 33 percentage points in higher employment probability in the long-term perspective, a 22 percentage point lower probability of non-employment and 28 percentage point lower probability in inactivity as compared to before participating in the programme, as well as financial gains though higher wages.[205] Furthermore, some interviewees also confirmed that this measure was the most cost-effective out of all ALMP measures[206]. An exception is the training programme for shortage occupations, a measure that did not show an overall positive effect for participants[207]. Although similar evaluations were not conducted in BiH, some interviewees stated that measures that combine training for a known employer with employment in the same company after training completion show the most optimal results in terms of cost-effectiveness[208]. Official data show that more than four fifths of participants in such programmes in BiH obtained employment immediately after completing training[209]. However, the long-term effects of these programmes in BiH are unknown.

Internship programmes in Albania and Macedonia can be evaluated as a measure with positive effects. The evaluated internship measure in Macedonia has shown a significant positive effect on participants' employability, as it was 25 percentage points higher than before participating in the programme. Moreover, a 21 percentage point reduction in participants' probability to became unemployed after programme completion has been observed.[210] In Albania, internships are evaluated as generally low-cost programmes[211]. Considering that participants in such measures are usually highly educated and would have a higher employment probability regardless of the program, the possible occurrence of a deadweight effect should not be neglected. The overall impact of such measures on labour market performance and employment may thus be questioned.

[205] Mojsoska-Blazevski and Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia.*

[206] Interviews with the representatives of PES in Macedonia.

[207] See Mojsoska-Blazevski and Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia.*

[208] Interviews with the some of the representatives of employment agencies who participated in our research. However, none of these statements can be empirically verified due to a lack of data in this realm and therefore should be understood as informal assessments of the interviewed stakeholders.

[209] Authors' estimates based on data provided in Employment policy reviews for BiH (2012 – 2014), available at: https://goo.gl/oj64nC (Accessed December 8, 2016); Federal Employment Institute, Federal Employment Institute's Annual Report for 2015; Employment Institute of the Republika Srpska, Republika Srpska Employment Institute's Annual Report for 2015.

[210] Mojsoska-Blazevski and Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia.*

[211] ILO, *Employment Promotion Programmes in Albania,* p. 22.

Finally, *self-employment measures* in BiH and Macedonia give satisfactory results in terms of self-employment sustainability, while other effects are mainly unknown. Evaluations to date have shown that self-employment measures in Macedonia bring some positive effects in terms of participants' well-being[212], but without clear effects with regards to the improvement of participants' labour market position[213]. On the other hand, according to some interviewees, 70% of the participants of self-employment programmes have remained in employment after programme completion in this country[214]. However, these statements cannot be empirically verified due to a lack of data in this realm and therefore should be understood as informal estimates of interviewed stakeholders. There is no systematic evidence on the effectiveness of self-employment measures in BiH, but some evaluations show encouraging results in terms of the sustainability of self-employment. Thus, for example, the retention rate within the Youth Entrepreneurship Programme, implemented in FBiH in 2012-2013, was 65% six months after the programme was completed[215]. Moreover, 14% of businesses launched as part of this programme have generated jobs for one to four additional workers within this period[216]. Self-employment programmes implemented in the RS in 2014 have a retention rate of circa 63% immediately after programme completion[217]. On the other hand, start-up measures oriented towards demobilised soldiers, implemented in previous years in BiH, had a low score in terms of business sustainability, which may suggest inadequate targeting of such measures or inadequate advisory support within the implemented start-up programmes[218]. However, all of these findings are limited and do not allow for generalisations on the effectiveness of such measures in BiH.

On the basis of the presented findings, one may anticipate that training programmes generally have a positive impact on employment and are mostly cost-effective measures. Such findings largely comply with existing international comparative evidence. Internship programmes have also demonstrated a positive impact on employment in Macedonia and have been shown to be

[212] Participants' subjective well-being refers to "subjective evaluation of the change in the financial situation and chances to find a job before and after program participation". Mojsoska-Blazevski and Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia*, p. 9.

[213] See Mojsoska-Blazevski and Petreski, *Impact Evaluation of Active Labour Market Programs in FYR Macedonia*.

[214] Interviews with the representatives of PES and relevant ministries in Macedonia.

[215] Labour and Employment Agency of BiH, Employment Policy Review for BiH in 2013, p. 25.

[216] Ibid.

[217] Authors' estimates based on data provided in: Republika Srpska Employment Institute, Republika Srpska Employment Institute's Annual Report for 2015.

[218] Vidovic et al., *Developing Efficient Activation Approaches and Identifying Elements for Regional Cooperation in the Western Balkans*, p. 78.

cost-effective in Albania. Self-employment programmes are recognised as sustainable to a satisfactory degree in Macedonia and BiH, especially having in mind the underdeveloped business sector in these economies. Finally, the most discouraging results, according to available evaluations, are seen in the case of employment subsidy programmes. These measures are found to be cost-ineffective in Albania and Macedonia, with moderate employment retention and without substantial impact in terms of improvement of participants' labour market position. However, available findings are not sufficient in order to make sound conclusions regarding the effectiveness of these measures. In other words, more comprehensive and systematic evaluations of particular ALMPs in these countries are needed for a substantial assessment of the success of implemented measures.

5.

Conclusion and General Recommendations

Unemployment is one of the most burning issues in Albania, BiH and Macedonia. Labour market weaknesses, reflected in permanently high unemployment rates, especially among the young population, accompanied by low employment rates and low participation of the working-age population in the labour force, require a complex set of effective economic measures that can tackle these problems. However, ALMPs as one such measure are still underdeveloped in all three countries and their full potential remains under-recognised.

The level of public expenditure on ALMPs is low in all three countries and a significant increase in spending did not occur in the period 2012 – 2015. On the other hand, the share of expenditure on active measures in the overall expenditure on labour market policies can be evaluated as satisfactory, considering that one third or more of total spending on labour market policies was foreseen for active measures in these countries. However, current levels of expenditure on ALMPs are insufficient having in mind extremely high unemployment in all three countries, especially in BiH and Macedonia. In other words, current levels of financing cannot ensure adequate coverage of unemployed persons and hinder potential improvements in ALMP portfolio and design.

Except for low financing of ALMPs, the implementation of active measures is constrained due to insufficient capacities of national public employment services in these countries, especially in terms of human resources. In all three countries, the ratio of PES officials who work directly with users is unfavourable and much higher than the 1:150 ratio recommended by ILO. Finally, staff often lacks training for the implementation of active measures. Current PES capacities in all three countries do not suffice in order to support the implementation of ALMP programmes in an efficient manner.

The coverage of unemployed persons and the labour force by ALMPs is significantly lower in these three countries when compared to the EU or OECD average. Moreover, current programmes do not sufficiently target those categories of unemployed persons that face significant obstacles in accessing the labour market, which lowers the effectiveness of such measures considering that some categories with better employment prospects in the formal labour market may be overrepresented among ALMP participants. Having in mind weak labour market performance and high rates of unemployment in these countries, it is questionable to what extent the existing coverage and targeting may substantially affect labour market outcomes.

Current portfolios of ALMP measures in all three countries are dominantly characterised by financing of programmes related to various forms of employment and self-employment incentives. Training measures are the most prevalent in Macedonia, where they cover about two thirds of participants. On the other hand, these measures are the most under-developed in BiH, where almost the entire ALMP portfolio consists of (self)employment subsidies. Considering deep structural imbalances in the labour markets and the significant presence of structural unemployment in these economies, a limited effect of employment subsidies can be presumed; evaluations conducted in these countries to date support such an assumption. On the other hand, under-developed training programs hinder the long-term development of human resources and the employability of jobseekers.

Nevertheless, precise and evidence-based conclusions on the effectiveness and relevance of existing ALMPs in Albania, BiH and Macedonia cannot be drawn given the lack of sound evaluations and comprehensive research in this realm. Evaluation mechanisms deployed by PES in these countries are developed in a rudimentary form only, without a strong methodological foundation and are frequently conducted on an *ad hoc* basis. In other words, although evaluation results can be considered a significant precondition for improvements in both the design and implementation of ALMP measures, such data is currently largely missing.

In order to improve ALMPs in Albania, BiH and Macedonia, some common and general recommendations have been provided below:

Institutional capacities and financing of ALMPs

- It is necessary to improve the institutional capacities of PES, especially with respect to human resources. Although a reduction in the ratio of the number of users and PES officials should primarily be based on a reduction in overall unemployment, a better division of duties within employment agencies and permanent investment in the upgrading of staff skills (especially for 'job brokerage' services such as counselling, career guidance, etc.) should be considered to be some crucial preconditions for a successful and efficient implementation of ALMPs.
- Public expenditure on ALMPs should be increased in all three countries and brought closer to the EU average of 0.5% of GDP. At the same time, it is necessary to ensure that increased expenditure on ALMPs be accompanied by improvement in PES capacities – especially in terms of human resources - in these countries, as well as the redesign of ALMP programmes, as to ensure the maximum efficiency of spending.

Coverage, target groups and targeting

- The coverage of beneficiaries by ALMP programmes should be expanded in all three countries and raised from the current level (1% to 1.7% of the labour force, depending on the country) more closely to the EU and OECD average of 4%, given the high rates of unemployment in these countries.

- The targeting of these measures should also be improved as to reach the most vulnerable and hard-to-employ categories in the labour market, as well to tackle the most important economic challenges within the country, such as youth unemployment, low rates of labour market participation of women or long-term unemployment. In that sense, targeting should be based on reliable and evidence-based socio-economic criteria.
- Participation in ALMP programmes should be more personalised and adapted to individual needs. In that sense, the currently dominant approach, where participation is based on facultative open calls in particular programmes, should be replaced with a more individual-centred approach. In order to achieve this, employment agencies of these countries should improve 'job brokerage' services, primarily counselling and individual career guidance.

ALMP measures

- ALMP portfolios in all three countries should be expanded and diversified. Therefore, dominant financing of (self)employment subsidies and related measures should be complemented by other measures. In other words, the structure of expenditure on various measures should be reprogrammed to support the above-mentioned diversification of the ALMP portfolio.
- Training measures should be improved and present to a greater degree in Albania and especially in BiH. The share of financing and coverage by training measures in total ALMPs should be expanded and be closer to the current share of employment subsidies in these countries. In that sense, financial and PES capacities should be improved to support these measures.

Evaluation of ALMP effectiveness

- Strong and comprehensive standards for monitoring and evaluation of ALMP measures should be adopted, and mechanisms established in PES in all three countries. Approaches to monitoring and evaluation should be based on rigorous methodology and include the evaluation of impact of ALMPs on the labour markets of these countries, instead of the current assessment of outputs of specific programmes. Both continuous internal monitoring and evaluation, as well as external evaluation, should be promoted and strengthened. Finally, all results of evaluation conducted by public employment agencies should be publicly available to provide reliable data for external research and policy debates in this field.
- In order to create preconditions for the development of sound evaluation mechanisms, employment agencies in these countries need to strengthen internal research and analytical capacities, as well as expand their collaboration with other institutions and organisations that can provide services in this field and support the efforts of employment agencies.

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