

FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES  
FONDATION EUROPÉENNE  
D'ÉTUDES PROGRESSISTES



# THE SOCIAL DIMENSION OF EU ENLARGEMENT

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# **THE SOCIAL DIMENSION OF EU ENLARGEMENT**



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A publication by

**FEPS**

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PROGRESSIVE STUDIES  
FONDATION EUROPÉENNE  
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Responsible editors: Dr. E. Stetter, C. Reuter

Editors: J. Tanczos, M. Claassens, E. Laino, S. Hammerton

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# Foreword

At the end of 2012 the European Parliament (EP) Resolution on Enlargement expressed concerns about the lack of attention to the social dimension in the EU enlargement process. This followed the findings of MEP Maria Eleni Koppa's monitoring report. Indeed, as was pointed out in the SOLIDAR publication "Active inclusion in the Western Balkans", there are still serious shortcomings when it comes to the promotion and implementation of this objective. In addition, the FEPS and EFDS book "EU Enlargement Anno 2012 – A progressive engagement" also underlines the need to strengthen the social aspects of the European integration process.

The EP Resolution drafted by MEP Maria Eleni Koppa states that "the social dimension has been largely neglected in the enlargement process". The unemployment rate has increased significantly in recent years – affecting in particular the situation of young people – and very little has been achieved in the fight against social exclusion. It should be emphasised that the socio-economic dimension cannot be separated from the political dimension. The current economic



and financial crisis has triggered an increase in populist movements that strongly build on, and exploit, citizens' dissatisfaction with their social and labour situation. Addressing these issues is not only about participation in the single market, therefore, but also about the challenge of enhancing European democracy and strengthening the integration process.

Hence, SOLIDAR and FEPS joined forces and set up a research programme to raise awareness about the most pressing issues and monitor the follow-up of the EP Resolution. This research programme focused on benchmarks defined in close cooperation with researchers, think tanks, CSOs and social partners from the South East European region. Following a call for academic papers, desk-studies were prepared on the collectively identified topics by authors who replied successfully to the call. The publication presents their contributions, then in order to offer a full overview of the current concerns, these are complemented by case studies submitted by the research programme's local CSO partners, namely Arbeiter-Samariter-Bund (Germany), Educational Centre (Serbia), Lokalna Inicijativa Razvoja (Bosnia and Herzegovina), Organisation for Civil Initiatives (Croatia), Centre for Legal Aid and Regional Development (Kosovo), and SOS Telephone (Montenegro) which in 2013 constituted the IRIS - Improving Social Services- network to promote active inclusion and social cohesion in the Western Balkans. Finally, an overall synthesis report was developed encompassing all relevant findings and led to the formulation of recommendations to the different

actors at the regional and national level. These recommendations touch upon the topics of Social, economic and political rights, Inclusive labour markets and decent work, and Social partners.

The main objective of this publication was to highlight the relevance of the EP resolution with regard to complying with the EU's common basic social standards. As defined in the *Acquis Communautaire*, this book allows the EP to identify further measures needed to improve social justice and cohesion. Most importantly, these measures should enhance the socio-economic transformation of (potential) candidate countries, the revitalisation of socio-economic rights through chapters 23 and 24 and the Europeanisation of a strong social model.

This publication is the first assessment of the results of the EP resolution a year after its adoption. In 2014, FEPS and SOLIDAR plan to continue with the monitoring together with their local academics, think tanks, NGO and CSO partners and follow up with continued yearly evaluations with the aim of contributing to the promotion of social progress and prosperity for all in the region.

Ernst Stetter  
FEPS Secretary General

Conny Reuter  
SOLIDAR Secretary General



# The social dimension of EU enlargement – From a symbolic declaration to practice

## **Judit Tánczos**

Policy Advisor, Foundation for European Progressive  
Studies

## **Elsa Laino**

Social Services Officer, SOLIDAR

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In Mladenovac, a village not far from Belgrade, 80 year-old Natasa has become visibly happier and more optimistic in the last few months thanks to the EU. The project TDI, “They Deserve It”, was set up using EU accession funds – and has clearly succeeded in its objective of offering quality social services and building the local community. Milana, the caretaker, is also satisfied. After being an internally displaced person (IDP) for years, the project has not only given her stable employment, but has also succeeded in integrating her and her family in their new home. Natasa and Milana embrace daily what the social dimension of the EU can mean in practice.

## The socio-economic transformation of (potential) candidate countries

Unfortunately, the sustainability and enhancement of projects involving people like Natasa and Milana has always been borderline. On the positive side, as Peter Pohlner concludes in his article *"(t)he transformative power of enlargement has delivered socio-economic success in the past. It can do so again in the difficult case of the Western Balkans, even in a difficult economic context."* Nevertheless, he recognises that progress often falls short of citizens' expectations as *"(t)he chapter on Social Policy and Employment in accession negotiations, although covering extensive EU acquis in the areas of labour law, health and safety at work, anti-discrimination and equal opportunities, reflects broad national competencies in this area."* Jan Marinus Wiersma adds that *"(t)he EU does not directly pursue social convergence of the Member States. On the contrary: market integration, budgetary austerity and macroeconomic reforms take priority"* and continues on a provocative note *"(i)n most if not all candidate countries unemployment is high, social security underdeveloped and poverty still rampant. Will joining the EU change this? Will the poor and the jobless be better off? Not by definition and certainly not immediately. And most unfortunately not if we take the reality of today's EU policies into account."*

## Chapters 23 and 24 to revitalise socio-economic rights

Several authors emphasise that the financial and economic crisis has not only had a negative effect on Member States' economies, but has also had a subversive effect on the EU horizontal and vertical integration process. While a progressive interpretation of the principle of subsidiarity had previously been applied when establishing the funding elements of a political union, currently the same principle is used in a neoliberal manner, in favour of re-nationalising policies dealing with transnational issues. Hence, the strictly neoliberal, economic nature of the union prevails. In enlargement policy, although chapters 23 (Judiciary and fundamental rights) and 24 (Justice, freedom and security) were pushed to the forefront, lacking hard *acquis* and with plans for a limited Justice Scoreboard, the perception is that this novelty is not for the benefit of candidate countries, but rather to make the process more burdensome for them.

## The case for the Europeanisation of a strong social model

Against this background, the EP resolution on EU enlargement in 2012 – based on the report of MEP Maria Eleni Koppa - courageously went against these trends by stating that *"the EU continues to be attractive, also because of its unique combination of economic dynamism with a social model and [the EP] regrets*

*that this social dimension has been largely neglected in the enlargement process.” This paragraph was of symbolic importance and opened up the prospect of a renewed, enhanced phase in EU enlargement policy. As Maria Eleni Koppa argues in her introduction “(t)he fact that we have the largest share of welfare spending in the world should be Europe’s competitive edge, not regarded as the luggage we must leave behind to become more competitive. It is the Europeanisation of Europe we should be advocating, not the completion of its Balkanisation. “*

With this ambitious objective in view, the articles and case studies in this publication give an overview of the situation a year after the report and provide recommendations on how to turn the symbolic declaration into an effective transformative principle of the EU enlargement process.

### **Social, economic and political rights: towards legal certainty and better monitoring**

Many of the articles addressed the complex relationship between social, economic and political rights in the region. In this framework, Dragan Tevdovski starts by describing the damned triangle in which the South East Europe (SEE) region is stuck: income inequality, neo-liberalism paired with populism and political patronage. He argues that “(t)he many reforms in the Western Balkans in the past two decades have not significantly improved living standards and have not solved unemployment and poverty, because there were

*no reforms which targeted directly the elements of the damned triangle."* He goes on by proposing a three-pillar strategy to combat this devastating situation, based on democracy and the rule of law, a development strategy based on SME's, long-term investments and wage growth, and a social welfare state.

According to Milos Solaja, a strengthened middle class and the improvement of their social and economic rights would be essential to enhancing participatory democracy. He observes that *"(t)he majority of this social group is still mentally and emotionally stuck in the former age of socialism and has not adapted its behaviour to transition and the new environment"* while at the same time *"a corrupt, clientelistic and crony economy is the main obstacle to faster and more progressive development"*. He concludes that *"To clean up this situation there is a need to harmonise the social, labour, financial, economic and criminal legislation in order to create an environment that nurtures a culture of work, with clear regulations protecting employees and other middle class groups."*

In their article, Querim Querimi and Bruno S. Sergi analyse the effects of the financial crisis on unemployment and poverty in the SEE region. When studying the relationship between growth and good governance, they affirm that *"Notwithstanding the relative increase in GDP (...) the region suffers from a number of phenomena that prevent it from growing into a strong and stable economic arena, hence one that is conducive to a flourishing environment for stable cross-cultural interaction. One of the region's persistent*



*challenges is strengthening the rule of law, in particular the institutions that are empowered to enforce laws."*

**Inclusive labour markets and decent work:  
implementing quality education and training  
and establishing gender sensitive policies**

A number of challenges have emerged in relation to establishing inclusive labour markets and decent work. Using the example of Macedonia, Mare Anceva underlines that *"there are no grounds for flexicurity in Macedonia so far, due to the non-functional labour market and the very low supply of jobs. Amendments to labour legislation that make dismissal and redundancy procedures easier increase uncertainty, put the workers in a subservient position and threaten freedom of association."* Additionally, almost all of the articles mention the challenge of youth unemployment and the need to reform the education system completely detached from reality.

With regard to gender perspective, in her article on examples of good policy Dasa Silovic recalls the transformative potential of the EU integration process by confirming that *"(t)he way out of the crisis also demands aggressive, sound and sustainable, gender sensitive employment policies. (...) the accession process is important in terms of the pressures and the urgent need to create opportunities for the greater integration of women in the labour force, accompanied by corresponding social security and public service infrastructure and measures."*

Dina Rakin underlines the limits of this transformative potential, stating that *"(t)he process of European integration did give an important stimulus for creating a good foundation and an adequate framework, but it will need to be given content."*

### ■ Social partners: Focus on capacity building

Several arguments are put forward to strengthen the capacities of social partners. Nikola Lazanica analyses the role of social partners in combating youth unemployment as he argues that *"(t)he effectiveness and efficiency of the implementation of EU funded projects will be determined by the capacity of the implementing bodies and the partnership between all relevant stakeholders, including social partners."* He lists several policy areas and initiatives which could profit from a revitalised cooperation with them.

Djordje Tomic continues with the same line of argument when he points out that the passivity and weakness of trade unions in the region is also responsible for a weak social dimension in the EU enlargement process. He points out the contradictory nature of the situation in which *"(w)hile trade unions are mentioned in documents as neglected partners, pressures exerted on decision-makers in BiH focus on so-called high politics issues. The underlying idea that the time has not come to tackle labour rights issues in BiH in practice is questionable and can hardly be maintained by solid argument."*

These considerations have led FEPS and SOLIDAR to call for the implementation of this set of recommendations to enhance the social dimension of EU enlargement in order to make the enjoyment of its benefits a reality for all citizens in the SEE region – just like Natasa and Milana.

# The transformative power of enlargement needs to improve the social situation

**Pierre Mirel**

Honorary Director General, DG Enlargement, European Commission,  
Member of the FEPS Scientific Council

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The enlargement policy of the EU is often criticised for lacking a social dimension. It is argued that other policies, especially those important for the functioning of the Single Market, dominate the accession process while social issues remain secondary.

The chapter on Social Policy and Employment in accession negotiations, although covering extensive EU *acquis* in the areas of labour law, health and safety at work, anti-discrimination and equal opportunities, reflects large national competencies in this area. Many areas, such as social dialogue, employment policy, social inclusion and social protection, only include instruments of soft *acquis*. The outcome depends largely on the willingness of the individual country to reform, invest funds and learn from best practices in the EU.

On average, every enlargement has been an economic and social success. The new Member States of the last round remain on average poorer than the core of the EU. There are regions and population groups which have seen only relatively small benefits from accession. However, the same countries and regions have made large improvements in their socio-economic conditions. Life expectancy and the health of the population in Central and Eastern Europe have significantly increased since the 1990s. In the Baltic States, this increase has been extremely large. Poverty, absolute and perceived, has gone down. Human Development Index levels for the most developed countries in Central Europe are very close to those in Western Europe. In just one decade, from 1999 to 2008, income per capita of the acceding countries rose from 40% of the EU-15 average in 1999 to 52% in 2008. It is estimated that the accession contributed half of the growth rate (in absolute terms a very high 1.75 percentage points per year). Growth in the old Member States also benefited from enlargement, in particular in those countries that increased trade and investment with the acceding members. The opening of labour markets created some frictions, both in sending and receiving countries. However, the feared scenarios of potential mass migration have not materialised. The benefits of free movement of labour have greatly outweighed the frictions. Enlargement is not at the root of the current economic crisis. On the contrary, it paves the way to recovery, as it has made the EU more competitive and contributed to reforms in many of its Member States.

The challenges of the current enlargement agenda, which covers the Western Balkans and Turkey, are arguably greater than in the past. The Western Balkans region started its accession process with productive capacities destroyed by a war, displaced people, minorities under threat and very weak rule of law. The good years up to 2009 brought about some economic dynamism and helped 800.000 people climb out of poverty. However, high growth rates were not accompanied by new jobs and little has been achieved in the fight against social exclusion.

The rate of unemployment before the crisis was regionally around 18% and has now gone up to over 22%. The situation is particularly difficult for the young. The incapacity of the economy to create jobs may encourage their emigration. When the young find jobs, these often do not correspond to their education, which points at a complete disconnection between the education system and labour market. The absence of vocational education and training programmes is another example of an inefficient employment and education policy mix.

Emigration is not a new phenomenon in the region. The Western Balkans have a long tradition of relying on diaspora, which they use as a social instrument. Remittances help to improve the lives of some parts of the population. But they reduce the incentive to work and therefore contribute to high inactivity rates, which are even higher in the case of women.

The large informal sector, which comprises illegal activities, is another social instrument perceived to be

acceptable, therefore tolerated by the States. Many unemployed are active in the large informal sector. Formality and informality often mix, which negatively impacts the efficiency of economic policies and reforms.

Social exclusion is widespread. Roma, which constitute on average just under 5% of the total population, are a particularly vulnerable minority. They are affected by poverty, discrimination and segregation in access to education, employment, housing and social services, including health care. Similarly, the rural population lives in greater poverty with very few economic possibilities other than subsistence agriculture.

It is perhaps remarkable that all these negative developments have not resulted in social unrest. The threat is real and could have a negative impact on regional stability and the EU perspective of the region.

The EU Thessaloniki agenda for the Western Balkans developed in 2003 announced the intention to support activities and initiatives promoting social cohesion. The stagnating bad social situation over the good years and the deep impact of the economic crisis led the Commission to issue more serious warnings. Since 2010, the enlargement strategies have been systematically warning that more needs to be done in order to maintain social cohesion. The Commission has been particularly critical towards the systems of social transfers which are poorly targeted. It invited countries to engage regionally and with the Commission to improve the policies. It proposed to set explicit and ambitious targets on employment, education and poverty reduction.

The countries and the Commission have engaged in improving the use of the Instrument for Pre-accession Assistance - IPA - for the social sector. The sector was prioritised in the period 2007-2013 and it will be also a key sector for interventions in the next financial perspective. On average 20% of funds went into social projects, which is certainly less than the needs. The main difficulty in preparing the projects has been the fact that their benefits are not imminent and the needs are widespread, so there are no strong coalitions supporting them. Most of the funds went into improving education infrastructure, followed by housing projects. The health sector received 20% of these funds and the development of better social policies 7%.

Recent new developments in EU policies and the EU enlargement policy point to a more active role of the Commission than in the past.

- The new approach in the accession negotiations on chapters 23 (judiciary and fundamental rights) and 24 (Justice, freedom and Security) firmly anchors the rule of law at the heart of the enlargement process. This also includes fundamental rights and freedoms. What used to be considered soft *acquis* have become a hard benchmark in accession negotiations. For example, Montenegro (and for that matter all other countries that will start accession negotiations in the above chapters) had to develop credible actions plans for the prohibition of discrimination and promoting gender equality, respecting the rights of the LGBT population, enforcing the rights of the child and



of disabled persons. Implementation of reforms in these areas will be monitored up until accession.

- Since 2011, a framework for National Roma Integration Strategies has been in place at EU level. The goals and principles of this framework are equally relevant for enlargement countries. The Commission will insist on implementation of the key commitments undertaken by the enlargement countries to promote inclusion of the Roma community. It will also seek coherence of support to Roma in the enlargement countries with the work being done at EU level.
- The new approach to economic governance, which the Commission introduced in the strategy 2013-14, recognises that fresh efforts to achieve the status of a functioning market economy must go hand in hand with employment and social reform programmes. The most advanced countries have already started preparing these programmes, which reflect the process under Europe 2020 for Member States. The potential candidates should join soon.
- The countries and the Commission have established a Western Balkans Platform on Education and Training for sharing experiences and increasing synergies towards education reforms in line with EU standards and best practices. Increasing resources of the European training Foundation are being mobilised to improve skills in the Western Balkans.
- The social dimension of the EMU was presented at the same time as the 2013 enlargement strategy. It provides new tools and focuses on assessing these policies. Although, the Western Balkans are far

from joining the EMU, they should be more closely associated with evolving EU policies. These should not be seen as raising conditionality but as a better response to common challenges.

At the end of the day, it is in each individual country's interest to reform, invest funds and learn from best practices in the EU, including in the social field. The ultimate tool to improve the social situation is a clear membership perspective. Progress on reforms needs consequently to be rewarded with progress in the accession process.

The transformative power of enlargement has delivered socio-economic success in the past. It can do so again in the difficult case of the Western Balkans, even in a difficult economic context.



# EU membership no guarantee of social progress

**Jan Marinus Wiersma**

Vice-President, European Forum for Democracy and Solidarity, and Fellow, Wiardi Beckman Foundation

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*"In defining and implementing its policies and activities, the EU is obliged, under the Treaties, to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health."* (Article 9 TFEU) This is a quote from the communication on the social dimension of EMU that was published by the European Commission in October 2013. It sounds ambitious and must be attractive to newcomers who expect or hope that accession to the EU will improve their lives. But does reality reflect these lofty goals?

## ■ The current context

In this contribution an attempt will be made to describe what countries – basically the applicants of

the Western Balkans - can expect when they become part of the European Union with its European Social Model. This is of course a broad concept but it suggests at least, as the Treaties indicate, an active engagement of the EU in that field. Undoubtedly the EU has made positive contributions to raising social standards whether in the area of gender equality or the improvement of labour conditions. Applicant countries will have to adopt this *acquis* which will contribute to improving the currently low labour standards. But the EU – even under the negative social conditions of the Eurocrisis – has been hesitant to go further. When it comes to tackling unemployment, reducing poverty, improving or expanding social protection also with the aim of narrowing the existing gaps between member states, the role of the EU is much more limited. Member States carry primary responsibility in these areas. The EU essentially promotes an open method of coordination and the dissemination of best practices. With these it targets unemployment and poverty. The EU does not directly pursue social convergence of the Member States. On the contrary: market integration, budgetary austerity and macroeconomic reforms take priority. We have a Budgetary Imbalances Procedure and a Macroeconomic Imbalances Procedure that aim at convergence of the Member States in these areas, but not a Social Imbalances Procedure: the EU accepts that there are huge differences between its members.

In most if not all candidate countries unemployment is high, social security underdeveloped and poverty still rampant. Will joining the EU change this? Will the poor

and the jobless be better off? Not by definition and certainly not immediately. And most unfortunately not if we take the reality of today's EU policies into account. It is most likely that accession will mean additional transition pains while adapting to the internal market which will (again) cost jobs in uncompetitive industries and will create pressure to lower social standards even more than already effected during earlier transition periods. The EU insists that candidate countries reform their economies in order to reach full market status as defined in the Copenhagen criteria - so far only Turkey has achieved it.

This is what Commissioner Füle emphasises in his most recent report on EU enlargement: "Invite the enlargement countries to prepare a national economic reform strategy comprising two elements – the existing macroeconomic and fiscal programme and a new structural reforms and competitiveness programme. The process will result in country specific recommendations and in clear guidance on actions needed for achieving further progress towards becoming a functioning market economy and for improving competitiveness."

The EU will ask applicants to prepare for participation in the European Semester: the budgetary imbalances and macroeconomic imbalances procedures already mentioned. Although the semester was designed for Eurozone countries, the non euro EU members are also taking part. Some of them are bound by their accession treaties to enter the monetary union as will candidate countries after they have joined. Tackling imbalances means in practice realising balanced budgets - basically

with austerity programmes and tax increases - and introducing structural reforms to make the national economies more competitive. How accession countries under these conditions will be able to fulfil the social ambitions mentioned in the Treaties is not very clear. They will need considerable economic growth to close the huge income gap with the richer EU countries. Only then will they be able to really increase social expenditure. The continuing differences in the present EU give an idea of the challenge ahead.

The social gap between the older Member States (especially the North West European ones) and those who joined since 2004 is still enormous. Recent figures illustrate this: the North West European member states all spend 30% of their GDP or more on social expenditure while most new Member States score below 20%. If one takes into account the aspect of purchasing power the differences are even bigger – we see in fact a lower percentage of much lower GDP's. The situation in the Western Balkans will not be much different.

Will the applicant countries of the Western Balkans be able to produce sustainable economic growth and thus find the money to increase social protection? Do they have the right business model for that? The outlook is not positive. By for example pegging them to the euro, they maintain relatively expensive currencies. This keeps the price of imports low and loans in euros to finance these cheap. The downside of this is a lack of incentive to invest in national productivity and exports. Foreign Direct Investment (FDI) has partly dried up – after the family silver had been sold - and the profits of foreign

companies are not being reinvested but exported. Overall there has been a lack of greenfield investments. External devaluations – of the currencies - could increase the competitiveness of the national business sector, but governments are hesitant to do so. The EU prefers other solutions and highlights the case of Latvia and how it coped with its financial and economic problems. It opted for an internal devaluation: a combination of lower taxes, more flexible labour standards, trimming social security and lower wages. It is the kind of shock therapy that countries like Poland applied after 1989 as a fasttrack to capitalism. It reflects the philosophy behind the European Semester and the emergency packages for Eurozone countries such as Greece.

Whether this situation will change will depend on the direction the EU will take in the years to come, on the macro-economic situation and if and how it will further develop the social dimension of EMU. It is obvious that leaving the crisis behind and lifting job and income levels through economic growth is the optimum scenario.

We are currently witnessing an improvement of the main EU economies and a general upturn would of course also benefit the accession countries that export a lot to the EU. But this does not immediately imply more focus on social conditions. Maintaining competitiveness will remain priority number one. If the current trends continue candidate countries will have to prepare - within the context described before – for joining an EU with limited social ambitions.



## ■ The social acquis

What will be demanded of candidate countries? First of all, and already during and as part of official accession negotiations, they will have to start adopting and implementing existing social legislation of the EU. The EU, secondly, aims at a high level of social protection but has so far not taken any steps to translate this ambition into comprehensive legislation and concrete targets as it has done elsewhere – like for instance the famous 3% and 60% of the GDP. EU activity (mainly cooperation through the open method of coordination and the promotion of best practices) has been limited to tackling (youth-) unemployment and reducing poverty - both important elements of the Europe 2020 strategy. Issues such as health care or pensions can also be put on the agenda in order to assist national strategy development.

Member States do not allow the EU to deal with social security directly since most of them see this as their exclusive responsibility and they invoke the principle of subsidiarity to defend it. They are afraid that Brussels interference might affect standards - one way or the other – and cause public protest. Candidate countries will therefore not be pressured directly by the EU to raise social protection. There is, however, a serious flaw in the approach of these social protectionists and that is the backdoor that the internal market and the European Semester offer to the European Commission to address and even correct national social policies. The internal market regime allows the European Commission to

promote level playing fields in this area – for example with regard to labour conditions - and the levels must not – by definition - be as high as in the richer Member States or as low as in the countries that joined recently. The experience with the European Semester so far also shows that it allows the EU to recommend policies to Member States with social consequences – take for example pensions. There is of course discussion about closing this backdoor but it is not clear how this can be fulfilled without giving more priority to the social dimension at the EU level.

### ■ Andor's ambitions

In connection with the European Semester – and under pressure from left wing EU governments - some action has been taken. The European Commission has been asked to prepare a Communication dealing with this issue. EU Commissioner for Social Affairs László Andor published a document in 2013 about the social dimension of EMU and the European Semester. He describes the ambitions of the EU but also the sobering reality of today. "The adoption of the Europe 2020 strategy put social policy at the core of EU economic strategy for the first time. With Europe 2020, the EU set headline targets for raising the employment rate, reducing early school leaving, increasing the proportion completing tertiary education or equivalent and lifting at least 20 million people out of poverty. The economic crisis has made it harder to meet the Europe 2020 targets: employment has suffered in most Member

States and disparities in the employment and social situations of Member States have been growing. Some 26.6 million people were unemployed in the EU-28 in July 2013, including over 19.2 million in the euro area. Nearly a quarter of economically active young people in Europe are unemployed: 23.4% (5.6 million) in the EU-28 in July 2013 and 24% (3.5 million) in the euro area. Poverty and social exclusion have been on the rise since 2009, especially in Member States in southern and eastern Europe.”

Against this backdrop Andor wants “to strengthen the social dimension of EMU by better coordinating and monitoring employment and social policies and developments as part of the European Semester process, mobilising and targetting action and funds to better address social distress, removing the barriers to cross border labour mobility within the EU and boosting the role of social dialogue.”

He mentions three priorities: “i. Reinforced surveillance of employment and social challenges and policy coordination; ii. Enhanced solidarity and action on employment and labour mobility; iii. Strengthened social dialogue.” And he continues: “The social implications of imbalances should be better integrated in the current framework for surveillance of macroeconomic imbalances by reinforcing the overall MIP analysis with indicators on employment and social issues.”

The European Council of October 2013 discussed the Andor proposals and asked him to develop a social scoreboard to be used in the 2014 European Semester, but the EU leaders also warned that it should be fully

compatible with all aspects of the single market. The steps to be taken to take more account of the social dimension apply to the Eurozone countries, the others can participate on a voluntary basis which most of them will as experience shows. How effective the scoreboard and the social indicators will be, remains to be seen. It is very unlikely that they will take priority over monetary and macro-economic demands and eventual national recommendations in the framework of a new procedure will almost certainly not have a binding character with sanctions as a stick behind the door.

### ■ Money dreams

In his report Commissioner Andor supports the far reaching idea to give the EU (the Eurozone) a fiscal capacity which could be used to help Member States to address asymmetric economic and social shocks. In practice this would mean that a Member State in trouble would get EU funds to tackle sudden deficits and would not have to carry all the costs alone or ask for emergency support from the EU or the IMF. Having such an EU facility would of course be in the interest of newcomers from the Western Balkans with their relative lack of financial and macroeconomic stability. But its realisation is very unlikely because the richer members do not want what they call a transfer union. Still, expectations in candidate countries have usually been high as regards financial support of the EU. But if we look at some new Member States, they have not been able to use the funds available fully or for purposes

like improving conditions in poor regions due to the absence of political engagement, mismanagement and lack of absorption capacity. The main EU funds are actually meant to soften the impact of the transition to the internal market and - at a later stage – to the euro. The amounts available for EU enlargement itself in the coming years have not changed (around 12 billion for seven years starting in 2014). The European institutions are very hesitant to raise the amounts because they fear a backlash in public opinion – enlargement remains unpopular. More money now for candidate countries however – as proposed by some of them - and less after accession would not only offer them the opportunity to more evenly absorb EU money over a longer stretch of years but also the chance to reduce social tensions by, in particular, the creation of more jobs now instead of many years later – especially in vulnerable regions. The EU has rejected this plan.

### ■ No money, no vision?

It sometimes does not look like that but there is undeniably a certain idea behind present EU policies. It is the (neo-liberal) agenda promoted by a conservative majority which has been translated into the tough demands of the Fiscal Compact, the GSP and the European Semester. What accession countries cannot fail to notice is an EU still taking the Washington consensus as the starting point – when in economic and financial trouble and in order to become more competitive globally cut budgets and deregulate your

markets. The nice wording of the Treaties does not alter this established fact – and within this context Member States are basically expected to solve their social protection problems on their own.

Can one argue against that? Why interfere in Member States and why force applicants to accept directions from Brussels on how to format and finance their social security or how to tackle poverty and unemployment? Why not let subsidiarity be the rule in this field? The main argument against this is the one used by the European Commission to demand level playing fields in those areas that do fall under its competence. It is about unfair competition. Without EU regulation Member States can lower social standards and labour costs (or keep them low) to gain advantages on the European markets. As a more permanent feature it might seriously damage the social fabric of the EU and lead to lower standards in general – the famous race to the bottom or the ultimate victory of the Anglosaxon model.

### ■ Free movement of labour: allies or competitors?

The EU cherishes the free movement of labour but it is especially in this area that different conditions in new and old Member States create tensions. Instead of improving the more vulnerable situation of citizens in new Member States, free movement of labour encouraged some to abuse this situation and start a downward spiral of labour conditions in the whole EU. The situation is made worse by the abuse of outsourcing

and shady detachment constructions to evade rules and collective agreements.

It all threatens to become a bone of contention that impacts very negatively on the EU and is being exploited by populists of the right and the left with unpredictable electoral consequences. Inhabitants of the wealthier Member States want the EU to correct this situation, often asking for limitations on the free movement of workers; citizens from the new Member States feel offended that after long transitional periods this basic freedom is still jeopardised. Brussels has so far been very hesitant to address the issue as it actually wants the market to solve it. This is why for example the Dutch government, there being no EU rules, talks directly to the authorities of some EU countries to deal with some of the abuses – for example by improving labour inspection.

Not all Member States have a problem with the present situation because they have underregulated labour markets anyhow. But even if the issue is only relevant to a limited number of EU countries, it should not be ignored – not merely out of principle but also because it seriously harms the image of the EU.

The European Council of October 2013 raised the issue of ownership of the European Semester process, including of course the austerity and structural reform programmes. One way to promote this, is to foster social dialogue, according to the EU leaders. But the issue of ownership goes much deeper in the EU as a whole and in the applicant countries. How can there be trust and confidence in the outcome of EU policies if so far they

have failed – at least for the many that directly feel the effects of the crisis – to produce positive outcomes? As long as many citizens see the EU as part of a problem and not the solution, trust will not be restored.

## ■ Conclusions

Joining the EU today does not bring immediate social progress. The situation even might get worse. That much is clear. The nice wordings of the Treaties have not been translated, in most cases, into European practice. Member States coordinate, exchange best practices, set certain goals together but social policies and their implementation remain basically a national responsibility. Within the European Semester framework the EU makes recommendations to the national governments, on budgets, on the economy and maybe in future on social issues in relation to the semester. The Europe 2020 strategy contains important targets, but they are not binding and will not be met if Member States fail to respect them. Brussels has not much to offer in terms of direct support for creating jobs, reducing poverty or raising social protection standards. Though the EU stands for a social market economy, it is basically up to new Member States how to interpret this and that of course is ultimately a political choice – right wing or left wing - as we have seen in the case of the countries that joined the EU in 2004 and 2007 and that have developed different types of social security.

Joining the EU in the present situation will not automatically lead to higher social standards and



certainly not in the areas that do not fall under EU competence. But new Member States at least have to adapt minimum norms in some areas and – maybe crucial in the end – they will have better opportunities to earn the money needed to finance more social protection.

The EU is a dynamic institution, also politically. Majorities change. A different agenda might materialise in the future. Some ideas, which now exist only on paper, might become reality and change the EU's approach to the social goals formulated in the Treaties. To give some examples:

- There have been proposals to include a social progress article in the Treaties to give the social dimension the same importance as the market principle and economic and monetary cooperation.
- This change of the Treaties would then be the basis for further strengthening - with the help of effective social indicators - the social dimension of all relevant EU policies.
- This could lead to the introduction of more minimum standards, for example for wages. In fact it would help close the backdoor.
- The Council of Ministers of Social Affairs would become much more important.
- The EU should do more to help applicant countries to improve social conditions with better funding, strengthening labour unions and the implementation of a decent work agenda.

# Technocratic versus nationalist populisms: Two sides of a single coin

**Maria Eleni Koppa**

Member of the European Parliament, Progressive Alliance  
of Socialists and Democrats

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The fall of communism in 1989 was heralded as the end of autocracy and the beginning of a journey for a return to Europe. In social sciences, the dominant narrative of transitology was founded on the twin pillars of the third wave theorem and the end of history. Elevating democracy to the state of nature, side-by-side with market reforms that were suitably enshrined in the Copenhagen criteria for EU accession, polity after polity in Southeastern Europe engaged in thorough and swift programmes of deregulation and privatisation, which were designed to liberate market forces, increase competitiveness, and generate private investment. This would be followed by the advent of a dynamic civic society, strong institutions and a healthy democracy. Against this backdrop of reforms, former Yugoslavia also suffered an unprecedented series

of conflicts, with massive and devastating civilian casualties. The unfortunate assumption was made that national homogeneity would in the long run contribute to political stability.

However, the results of this transition, political and economic, do not meet expectations. In this scheme, the phenomenon of Yugo-nostalgia can be seen as the Southeastern European equivalent to left and right national retreat populism. In essence, it constitutes a nostalgic call for the re-empowerment of the state. And in this respect, these movements constitute the same side of the same coin, in a comparable context.

GDP levels in former Yugoslav states took 20 years to recover to 1990 levels. The Gini coefficient never recovered. That is not an argument for nostalgia, but it is a critical evaluation of what has been achieved, or what has not been achieved. For even after the recovery of GDP levels, we have often witnessed jobless growth. Unemployment, of the kind now experienced in Greece and Spain, has been chronic in Southeastern Europe, with devastating effects for the social fabric of the societies in question. We have not lost a generation, but arguably more than one. Emigration has been massive, with remittances accounting for 5% to 20% of GDP or even more; those who have emigrated are often the most educated, adding a brain drain effect to demographic stagnation. In sum, the narrative of transition is interwoven with socioeconomic stagnation. This stark reality is not very different from the chain of events triggered over the last five years on the periphery of EMU.

In Europe, the only country that does not have constitutionally guaranteed social rights is one whose constitution was in effect drawn in the context of a peace agreement, namely Bosnia-Herzegovina. No doubt the constitution provided for the end of bloodshed, despite the subsequent entrenchment of ethnic cleavages. But, while criticism has focused on the refusal of indigenous actors to transcend ethnic cleavages, the fact that socioeconomic cohesion was forgone even as a normative ambition is telling for Europe as well. While in the 1990s the wide array of social rights enshrined in formerly socialist constitutions were treated as the result of a so-called homo-sovieticus culture, which exchanged safety for liberty, the political consensus underscoring this criticism has gone to new extremes. Priorities have changed over the last two decades within Europe proper, to an extent that it is difficult to speak of a European Social Model. What we have witnessed instead is a libertarian revolution.

The prevailing trend has been for Brussels to kick off a process of unleashing market forces, through market liberalisation and/or consolidation, whilst refraining from assuming responsibility for micro or national effects. The state is thus seen as an operating system, lowering tax intake, making the labour market more flexible and less secure, thereby in theory becoming business-friendly. Meanwhile, income disparity, youth unemployment, the gender gap and pensioner's poverty are seen as national responsibilities. The underlying narrative that makes populism so potent a force in this context is that it is founded on a promise for a return

to a golden age of social security by means of national retreat. In France, it is called de-globalisation, in Greece nationalism, but in the context of the British discourse of renegotiating EU membership, even the Commission has accepted that a certain amount of competencies must be repatriated, while the common market must be safeguarded. In sum, Europe creates a context of a common market while its members remain a social sum. This prevailing political trajectory shapes not only enlargement policy, but also core economic policy.

That in the long run a socioeconomic balance will be restored by market forces alone is a hypothesis that has been disproved. For decades, states with higher incomes and larger tax intakes, which correspond to greater investment on education and welfare, have outperformed in terms of growth states which, by virtue of their low cost status, should have attracted in theory massive waves of investment. Still, greenfield investment is rare, while foreign direct investment is often speculative and/or focused on privatisation of former state assets. States in Southeastern Europe have been engaged in a race to the bottom for tax revenues, whilst welfare provision has remained basic, often failing to provide a safety net against extreme poverty. The assumption is that competition for the attraction of investment is healthy; however, there is little in terms of social dividends in this kind of growth strategy.

Meanwhile, speedy privatisations have given rise to new elites, often indistinguishable from old elites. With the gradual downsizing of collective bargaining frameworks, not to mention the celebration of the magic

mini-jobs or flex-security formulae, unemployment is addressed by means of underemployment. None of these socioeconomic trajectories are unique to Southeastern Europe, or indeed Southern Europe. Across Europe the state withdraws, but this is not to the benefit of European political aggregation. In fact, what emerges is a political vacuum with no substitute; hence, the result is a libertarian revolution. Intra-state and intra-regional inequalities are rising, not declining, not only within Southeastern Europe, but also within the EU. And the call for redistribution is then subjected for approval to have and have-not national constituencies, without a cohesive political agenda underpinning the real substance of the choice to be made. Subsequently, in terms of socioeconomic development in recent years, there has been more socioeconomic Balkanisation of Southern Europe than Europeanisation of Southeastern Europe.

Against this political backdrop, labour is more often than not treated as a commodity rather than a social partner:

- with one third of the total workforce unemployed, to speak of the necessity for better oversight of the labour market is hypocritical;
- with European programmes tackling youth unemployment through the subsidy of social security contributions and/or part of the compensation, which often leads to the recycling of the pool of the unemployed youth, speaking of a Social Model is hypocritical;
- with a priority of monetary stability over full employment and the total negation of a social

transfers union, speaking of cohesion policy is hypocritical;

- with the sole answer to the banking crisis being consolidation, which does not guarantee finance to small and medium businesses, speaking of a common market is hypocritical;
- with the undermining of collective bargaining legislation, to speak of a gender dimension in collective bargaining is hypocritical;
- with declining participation in trade union organisations, a massive deregulation of the labour market and high unemployment, to lament the absence of a social partner's culture is hypocritical.

This kind of technocratic hypocrisy often takes the form of cultural essentialisms, speaking of Balkan or Mediterranean mentalities as somehow inherently resistant to modern. And this semi-technocratic populism, in turn, feeds anti-European and nationalist-retreat populism, of a left or right leaning in a vicious spiral that is likely to surprise us as the next European elections draw closer.

It should be remembered that the European Social Model was not only about market consolidation. It was about the engagement of employers, the state and unions in a long term planning framework geared toward growth that would take into account the need for social capital and productive development, redistribution, a social safety net, consumer confidence, and gender mainstreaming. This would lead and did lead for decades to a positive spiral of growth. To speak of these items on the agenda as completely unrelated harnesses

populism of a nostalgic type. It is not *naïveté* that breeds populism, but a vacuum of power. The state is perhaps not the answer, but neither is a normative framework that is common to all but answerable to none.

What we have witnessed both within the EU and in the European Neighbourhood is the advent of the de-socialisation of economic discourse. This also means that the Social Model has largely been de-substantiated. Coming to terms with this reality will be necessary, not only to keep the process of enlargement on track, but also to avoid a more broad derailment of the European project as such. Europe's competitive advantage was precisely its European Social Model. The fact that we have the largest share of welfare spending in the world should be Europe's competitive edge, not regarded as the luggage we must leave behind to become more competitive. It is the European of Europe we should be advocating, not the completion of its Balkanisation.





# The damned triangle of inequality, neo-liberalism and patronage in Western Balkans: Is there any way out?

**Dragan Tevdovski**

Economist, Ss. Cyril and Methodius University in Skopje  
and Member of the FEPS Young Academics Network

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## ■ Introduction

The goal of this paper is to highlight the biggest socio-economic problems of the Western Balkans countries and to propose ways to solve them. The main thesis is that the Western Balkans is faced with a damned triangle: an unnatural mixture of neo-liberal ideology and populism that has only one goal - to increase the income and wealth of elites inside and outside the countries.

Income inequality increased significantly in most of the countries, leading to huge poverty and massive emigration abroad. Many segments of the economies

are characterised by a strong neo-liberal doctrine: high flexibility on the labour market; broken power of the trade unions, flat taxation and glorification of foreign direct investments. As a result, workers are unprotected and wages are kept low, profits are big, while flat taxation does not allow for redistribution of income from the elites toward the rest of society. Political patronage and populism are the tools of governance, allowing the elites to offer something to the people in a situation where unemployment is huge, wages are low and living standards are bad. It is in contrast to the participatory democracy in the region.

The paper argues that any given reform will fail to improve the situation in the Western Balkans if it does not directly target the damned triangle, because in every other case the elites in the countries will find ways to distort the reforms and to direct them to serve their own interests. The paper proposes three pillars of policy actions in order for participatory democracy to be built and income inequality to be reduced in the Western Balkans. The first is a necessary condition for the success of any other reform. It should limit the power of the political elites to control everything. It consists of a free and independent media, judiciary and civil society organisations. The second pillar should be to put an end to populism and political patronage and to implement a new development strategy based on SME's, long-term investments and wage growth. The third pillar should be the dismantling of neo-liberalism and the creation of a real social welfare state.

The analysis includes all Western Balkans countries: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia. Croatia is included despite recent EU membership, because the data in the analysis covered the period till 2013. In some cases, comparisons are made with Slovenia (perceived to be the most economically developed country in the region) and Germany (currently one of the most powerful economies in the European Union).

The basis for this paper is Tevdovski (2013), which is focused on the situation in Macedonia, while the excellent discussion of the effects of inequality can be found in the last book of the Nobel Prize Winner in Economics, Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers our Future* (Stiglitz, 2012).

The structure of the paper is as follows: section 2 provides facts about income inequalities in the Western Balkans; section 3 analyses the two mechanisms of inequalities: neo-liberal ideology and populism and political patronage. The policy recommendations are provided in the last section.

## ■ Raising income inequalities

Inequality in income distribution has steadily increased over time in the Western Balkans. The GINI index values for the Western Balkans countries are presented in the table 1. The data source is the World Bank (2013). Selected years for every country are chosen, because the database does not contain data for every year for each country. The first and last

year of every country corresponds with the first and last available data. The GINI index summarises in one number the extent to which the distribution of income among individuals (or households) within an economy deviates from a perfectly equal distribution. A GINI index of 0 represents perfect equality, while an index of 100 implies perfect inequality (World Bank, 2013).

Table 1. GINI index in Western Balkans countries, different years based on available data

Albania	1997	2002	2004	2008
GINI	29.1	28.2	31.1	34.5

Bosnia and Herzegovina	2001	2004	2007
GINI	28.0	35.8	36.2

Macedonia	1998	2002	2005	2010
GINI	28.1	38.8	39.1	43.6

Montenegro	2005	2010
GINI	30.1	28.6

Serbia	2002	2005	2010
GINI	32.7	33.4	29.6

Croatia	1998	2002	2005	2009
GINI	26.8	31.1	29	33.7

Source: World Bank (2013).

Note: Kosovo is not included as the data is not available.

The GINI index increased significantly in Albania (from 29.1 in 1997 to 34.5 in 2008), Bosnia and Herzegovina (from 28.0 in 2001 to 36.2 in 2007), Macedonia (from 28.1 in 1998 to 43.6 in 2010) and

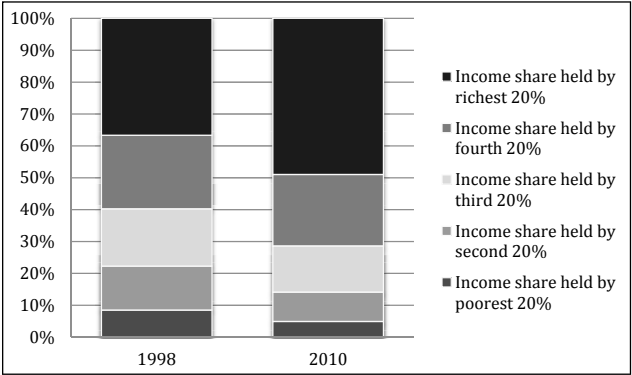
Croatia (from 26.8 in 1998 to 33.7 in 2009). The GINI index decreased only in Serbia (from 32.7 in 2002 to 29.6 in 2010) and Montenegro (from 30.1 in 2005 to 28.6 in 2010). However, the period under review is relatively short in the case of Serbia and especially in the case of Montenegro.

Only two theses can be used in defence of the rising income inequalities in the Western Balkans region. The first thesis is that increasing income inequality occurs in many other countries and therefore increasing inequality in the region merely follows this trend, and the second thesis is that poor people should not complain because although they receive a smaller piece of the pie (i.e. income) now compared with the past, the pie is growing so much (thanks to the rich people), so their piece is actually bigger. However, both theses are incorrect in the Western Balkans context. Why?

It is true that income inequalities have increased in many other countries and that higher income inequalities in the developed countries were identified as the main cause of the recent global financial and economic crisis, together with the deregulation of the financial markets. But, the problem of the Western Balkans countries is their low living standard (their average GDP per capita is 65% lower than that of the EU-28), i.e. the pie is small, so small changes in the distribution of income could lead to serious problems in the satisfaction of basic needs for most of the population. Let's take Macedonia for example. Figure 1 presents the percentage share of income of different population groups at two points in time: 1998 and 2010. The income share held by the

richest 20% of the population increased from 37% in 1998 to 49% in 2010. So in 2010, the income share held by the richest 20% of population is almost equal to the income share held by the remaining 80% of the population. Moreover, this process takes place on the backs of the lowest 20%, the second 20% (lower middle class) and the third 20% of the population (central middle class). The aggregate share of income of these three groups decreased from 40% in 1998 to 27% in 2010 and became even smaller than the income share held by the richest 10% of population (32% of total income in 2010).

Figure 1: Income distribution in Macedonia, 1998 and 2010

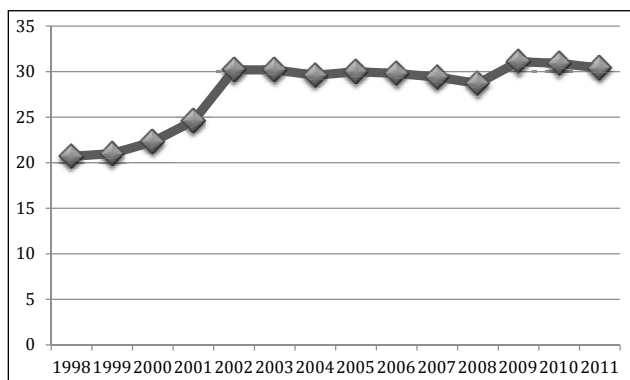


Source: World Bank (2013).

Figure 2 shows clearly that the reduction in the relative share of income for the majority of the

population is accompanied by a reduction in absolute income. It illustrates the relative poverty in the country. The percentage of people living below the poverty line increased from 21% in 1998 to 31% in 2010. So, in a twelve year period, the rise in income inequality pushed half of the lower middle class (the second 20% of the population) into poverty.

Figure 2: Relative poverty in Macedonia, 1998 - 2010



Source: State Statistical Office of the Republic of Macedonia (2012).

It is important to note that the global financial and economic crisis exacerbated these unfavourable trends in the Western Balkans. For example, Ivančev and Jovičić (2011) stressed that average income per capita in Serbia is significantly decreasing as the result of the global crisis.



## ■ Two mechanisms of inequality

There are two main mechanisms, or drivers, of inequality in the Western Balkans. The first is the implementation of neo-liberal ideology in selected areas of the economy and the second is populism and the system of political patronage. Of course, their joint existence is strange, because they should be two opposing forces – at the heart of neo-liberalism is the free market, while populism is based on state intervention. They mutually exist in the Western Balkans with only one purpose: income distribution towards elites and outside of the countries. Also, both of them are masked by the policy makers. Implementation of the neo-liberal agenda is presented as an improvement of the market environment and populism as a Keynesian policy.

## ■ Neo-liberal ideology

The Western Balkans is not a special case. Neo-liberalism, earlier and later, was introduced in all transition countries in Europe. For example, Slovenian economist Mencinger writes about the introduction of neo-liberalism in the former communist countries that joined the European Union (EU): “New member states (NMS), or at least their governments, have been much more attracted by the American market model and neo-liberalism than the “old” EU states ever were. The EU showed very little interest in promoting the social market model in transition countries. The vacuum created by the collapse of socialism was filled by

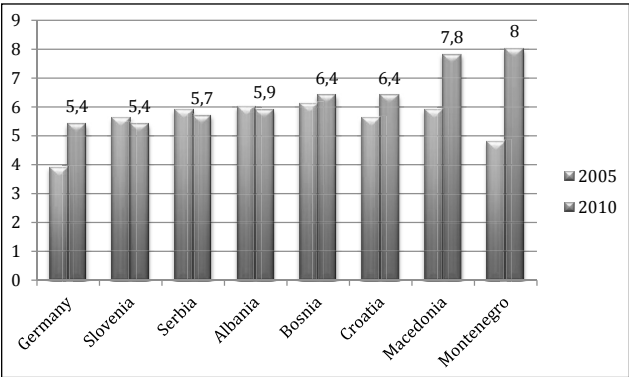
American advisers promoting a pure “shareholder value” type of capitalism; they were immediately followed by many domestic “Marxists” who quickly turned into “Hayekians” (Mencinger, 2012).”

Neo-liberal ideology can easily be recognised in the Western Balkans, at least, its four key elements: increased flexibility of the labour market, the destruction of the power of trade unions, the existence of flat taxation and the glorification of foreign direct investments (FDI).

The first element: the increased flexibility of labour markets. Labour rights are continuously cut and year-by-year labour legislation increasingly favours the employers. This thesis can be confirmed by the index of labour market regulation, which is published by Economic Freedom of the World (2012). Figure 3 compares the indices of labour market regulation in 2005 and 2010 in Western Balkans countries, taking Slovenia and Germany as benchmarks (2010 is the last year for which EFW have published data). The range of the index is from 1 to 10, where 1 means that the labour market is strongly regulated and 7 means that the system is flexible. The figure presents two striking facts: (i) In 2010, all the Western Balkans countries have higher index values than Germany and Slovenia, which implies that the labour legislation is far more favourable to the employers - not sufficiently protecting the workers. This is especially true for Macedonia and Montenegro where the index value is higher than 7; (ii) the index values increased in all Western Balkans countries, except Serbia and Albania, in the 2005-2010

period, which implies that over five years, the regulation of the labour markets deteriorated.

Figure 3: Index of labour market regulation, Western Balkans countries and Slovenia and Germany as comparator countries, 2005 and 2010

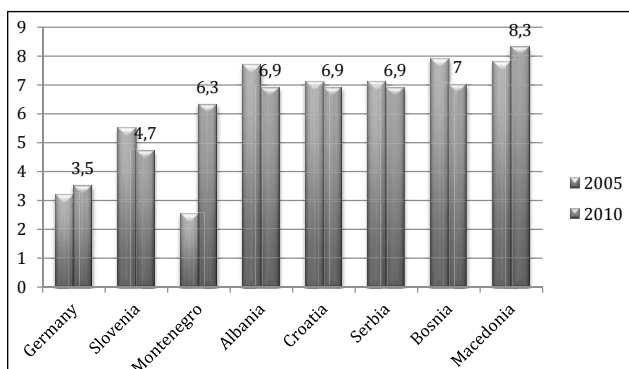


Source: Economic Freedom of the World (2012).

The second element: the destruction of the power of the trade union movement. Figure 4 presents the collective wage bargaining index in the Western Balkans region. Germany and Slovenia are shown again as benchmarks. The index values range from 1 to 10, where 1 means that wages in the country are fixed through the collective bargaining process and 7 that wage fixing does not depend on this process, but on an individual enterprise. This figure presents the same story as figure 2. In 2010, all the Western Balkans countries have index values significantly higher than Germany and Slovenia, which may be explained

by the lack of a collective bargaining process. Albania, Croatia and Serbia have an index value of almost 7, Bosnia 7 and Macedonia significantly higher than 7. While the Montenegro value is not so close to 7, it is characterised by a strong increase in the 2005-2010 period.

Figure 4: Index of collective wage bargaining, Western Balkans countries and Slovenia and Germany as comparator countries, 2005 and 2010



Source: Economic Freedom of the World (2012).

The third element: existence of flat taxation. The inclusion of the Western Balkans in the race of the Central and Eastern European countries (CEE) towards low and flat taxes started in the mid-2000s – a decade later than in CEE (Estonia, Lithuania and Latvia introduced flat taxation in 1995). In January 2007, Macedonia introduced a 12% flat personal income tax and corporate profit tax, which later on, in 2008, was

cut to 10%, which is the current value. At the same time (January 2007) Montenegro introduced a 15% flat personal income tax, which dropped to 12% in 2009 and finally since 2010 it has fallen to 9%. Montenegro has also introduced a 9% flat corporate profit tax. Albania followed the Macedonian and Montenegro example in 2008 and implemented a 10% flat corporate profit tax, whereas in 2009 Bosnia and Herzegovina and Kosovo introduced a 10% flat personal income tax at the federal level. The personal income tax rate in Serbia depends on the type of income. The personal income tax rates are: 12% for residents of Serbia for income from employment; 10% for income from business and income from capital; 20% for income from royalties, rental income and other income; and 15% for self-employed persons and non-residents. All companies in Serbia are subject to 10% flat corporate tax. Only Croatia has never accepted flat taxation.

Despite the fact that flat taxation does improve tax collection because of its simplicity ("one tax bracket fits all") and low level, it does not contribute to correcting the inequalities of income distribution. On the contrary, it does the opposite - it favours the flow of income towards the rich inside and outside the country. Moreover, the existence of the flat taxes, together with low property taxes in the Western Balkans, slants the tax systems in general completely in favour of the rich. As a result, state budgets in the Western Balkans are largely filled with indirect taxes (value added tax), where the poor pay a higher percentage of their disposable income than the wealthy.

The fourth element: the glorification of FDI. In the Western Balkans, the policy makers present FDI as a 'holy grail' for their economies and the basis for economic development, although the empirical literature gives mixed views about the positive effects of FDI in transition countries (Carkovic & Levine, 2002; Blomstrom & Kokko, 2003). Moreover, in order to attract FDI the Western Balkans countries offer different types of privileges - from tax exemptions to direct financial support for big multinational companies, which put foreign investors in a more favourable position than domestic investors. Therefore Mencinger (2012) argues that this process can be seen as a replacement of the so-called muddy privatisation at the beginning of transition with a new way of selling the productive assets of the economies, now directed at foreigners, who have been allowed a significant or in some sectors dominant market share (telecommunications, banking, electricity, etc.) (Mencinger makes the point about the NMS, but there is no difference in the Western Balkans, only a time lag).

Other elements of the implementation of neo-liberal ideology can be seen in the destruction of the public health system and its replacement with private hospitals, and the high positioning of some countries in the rankings for doing business.

What were the proclaimed goals of the introduction of neo-liberal measures? The increased flexibility of the labour market, along with the reduction of pay rates (in some countries) was intended to reduce administrative barriers and salary burdens in order to increase the

number of new jobs in the economy. The low and flat taxes were intended to make the economies havens for investment. FDI was supposed to inject new capital and to bring new technologies, knowledge and skills, which would increase productivity and accelerate economic growth. However, despite the relative success of the Western Balkans in attracting foreign investments, the region has not succeeded in solving mass unemployment or in improving living standards. The data about FDI, unemployment rates, long-term unemployment rates and GDP per capita in PPS are given in table 2. The unemployment rate in all Western Balkans countries is 15% or higher, while Kosovo, Macedonia and Bosnia and Herzegovina consistently have the highest unemployment rates in Europe. Even more worrying is the situation with long-term unemployment. The three Western Balkans countries where published data exists have more than double the long-term unemployment rate of the EU average (Macedonia 82.6%, Serbia 71.6% and Croatia 63.8%). As a result, in all Western Balkans countries, except Croatia, living standards have remained at one third of the EU level for the last decade.

The key question is who wins and who loses from the introduction of neo-liberal measures? The winners are the rich groups in society and all the rest are the losers. The flexibility of the labour markets and the destruction of collective bargaining have removed the protection the workers had and keep wages at a miserably low level. This makes profits bigger while flat taxation does not allow for redistribution of income from the elites towards the rest of society. Of course, everything would

Table 2. Selected macroeconomic indicators for Western Balkans countries

	FDI as percentage of GDP		Unemployment rate, 2012	Long-term unemployment rate, 2011	GDP per capita in PPS, 2012 (EU-28=100)
	Average 2004-2007	Average 2008-2011			
Albania	4.3	10.1	15	n.a.	30
Bosnia	7.9	2.6	28.0	n.a.	28
Croatia	5.5	4.4	16.2	63.8	61
Kosovo	6.9	8.5	45.4*	n.a.	n.a.
Macedonia	5.9	4.2	31.3	82.6	35
Montenegro	n.a.	22.2	19.7**	n.a.	43
Serbia	9.6	5.2	23.1	71.6**	35

Sources: World Bank (2013) for FDI and long-term unemployment rate data; IMF (2013) for unemployment rate data; Eurostat (2013) for GDP per capita in PPS.

Note: \* the data is for 2009 (last available data);

\*\* the data is for 2011.

have been different if a significant number of new jobs had been created or if increased productivity had pushed up wages and living standards.

Last, but not the least, those who implement neo-liberalism in the Western Balkans and who should believe in it havenot in fact given neo-liberal ideas a chance to work. Neo-liberalism was implemented at the same time as “the second mechanism”, which glorifies state power, increases public spending and



encourages the growth of public debt, all of which are strongly criticised by the ‘father’ of the neo-liberalism - Hayek (Hayek, 1944). But, why did this mix happen? It is not the result of a belief in neo-liberal ideas. Maybe it is to do with, income and wealth distribution? And, of course, in a situation where unemployment is huge, wages are low and living standards are bad – the elites should offer something to the people. The “second mechanism” is a tool for governance.

### ■ Populism and political patronage

The two American professors Acemoglu and Robinson, in their book “Why nations fail: Causes of power, prosperity and poverty”, argue that the problem lies not in capitalism but in institutions (Acemoglu and Robinson, 2012). Countries are poor not because of geography, not because of history, not because of natural resources, but because of their institutions.

Populism and political patronage are a form of abused institutions. They existed in South-Eastern Europe (SEE) long before the transition. The Greek professor Pappas argues that the political patronage which started to occur in the 1980s in Greece, is the main reason for the Greek crisis: “In the view of many, political patronage is the main cause of the Greek crisis. In mainstream theory, patronage is seen as a linkage between politicians and citizens. Such patron-client ties are based on direct material inducement targeted to individuals and small groups of citizens whom politicians know to be highly responsive to such side-payments

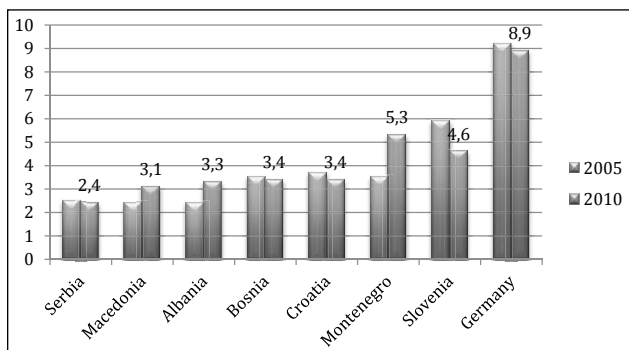
and willing to surrender their vote for the right price.” (Pappas, 2013).

The excellent details from the Greek case can be found in a book with the very illustrative title “Boomerang” (Lewis, 2012). However, Greece is just one piece of the mosaic. Ferrera (1996) used the concept of clientelism in order to explain the particularities of the Southern European welfare model (Italy, Spain, Portugal and Greece): the persistence of clientelism and the formation – in some cases – of fairly elaborate patronage machines for the selective distribution of cash subsidies.

The Western Balkans system of populism and political patronage, in general, is no different from the case explained by Pappas (2013). In most cases, societies are divided into two irreconcilable parts represented by two main political parties regularly alternating in power. The specificities can be found in countries with mixed ethnic backgrounds. In Macedonia, society is divided not into two parts, but into four, represented by two main Macedonian and two main Albanian political parties where as a rule one main Macedonian and one main Albanian political party have formed a government. Everything is much more complex in the mixed Bosnian political design. However, the key is that everybody expected to gain from the abuse of state resources when their political party won the election. Therefore, more than twenty years after the start of transition the political parties have not succeeded in forming a real ideology – left or right. Usually they shift around and their policies are more closely connected with the oligarchies than with ordinary citizens.

The system of political patronage works through three types of state related benefits. The first type is real incomes such as salaries and social transfers. In general, the number of employees in public administration, in the majority of countries, has increased more than 50% since the beginning of transition (without significant service improvement) and social transfers have been extended to population groups who do not qualify for them (two examples: social transfers for people who do not fulfil the legal criteria and war pensions for people who were never war veterans). The second type of state related benefits is privileged protection against market risks. The most common cases of this type are economic subsidies (for example, in agriculture), regardless of results, and protected positions for companies close to the political elites (the main unwritten criteria for the distribution of public tenders is closeness to the political elite). The third type takes the form of tax evasion, unauthorised construction, pension fraud and legislative immunity. A good measure of this type of system distortion is the index of judicial independence. The index values range from 1 to 10, where 1 means that the judiciary in the country is heavily influenced by political pressure from members of government, citizens, or firms, and 7 means that the judiciary in the country is entirely independent. Figure 5 indicates that the judiciary is subject to political influences in all Western Balkans countries (range of the index from 2.4 to 5.3 in 2010), plus Slovenia (4.6). The situation is the opposite in Germany where the judiciary in the country is entirely independent (significantly above 7).

Figure 5: Index of judiciary independence in the Western Balkans countries and Slovenia and Germany as comparator countries, 2005 and 2010



Source: Economic Freedom of the World (2012).

Examples of different aspects of the same story of populism and political patronage in the Western Balkans can be found in: Cvijanović and Redžepagić (2011) - the transition from political capitalism to clientelist capitalism in the Croatia; Dobroitić (2008) - social care system for Croatian war veterans; Đukić (2006) - populism as the main obstacle to the re-organisation of trade unions and society in Serbia; Upchurch and Marinković (2011) - wild capitalism, characterised by informality, clientelism, corruption, personal political networking and gangsterism in Serbia, where post communist transformation allowed space for personal profit seeking as the old nomenklatura took advantage of the sale of state and social assets; Kajsiu (2010) – the crisis of representation in post-communist Albania; Mavrikos-Adamou (2013) - difficulties of

establishing independent judiciary, corruption, the lack of transparency in the legislature and leader dominated party political system in Albania; and Tevdovski (2013) - populism and political patronage in Macedonia.

Countries which strongly claimed that they were based on social cohesion and solidarity have in reality a system which gradually increases the serfdom of the majority of the population in relation to the elites. The profits in the political patronage system are designed to be distributed in small portions and in turns, rather than in one go.

Table 3. General government gross debt (as percentage of GDP), Western Balkans, 2008-2012

Country	2008	2009	2010	2011	2012	Relative change (in %) 2012/2008
Albania	54.7	59.5	58.5	59.4	61.4	12.2
Bosnia and Herzegovina	31.0	35.9	39.3	40.4	44.3	42.8
Croatia	29.3	35.8	42.6	47.2	53.7	83.2
Macedonia	20.6	23.8	24.2	27.9	34.0	64.7
Montenegro	29.0	38.2	40.9	46.0	51.9	78.9
Serbia	33.4	38.1	46.5	49.5	61.8	85.0

Source: IMF (2013).

Populism and political patronage have been financed by enhanced borrowing, especially external loans. Table 3 presents evidence that in the last five years all the Western Balkans countries, except Albania, significantly

increased the general government gross debt (the total increase for the 2008-2012 period varies from 42.8% to 85%). Of course one of the major reasons was the response to the global crisis. But, it is far from true that government spending used in a populist or political patronage manner is Keynesian, as it is often presented by the policy makers. Why? The best way to answer this question is through one of the key concepts that Keynes introduced - the fiscal multiplier, and by the most extreme example that is given by Keynes for the importance of the fiscal multiplier: „If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on the well-tryed principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing.” (Keynes, 1936).

Nice example. The crucial point is that Keynes nowhere mentions that the money should be stolen. However, it is clear how the stories of the populism and political patronage end. The Greek case is the best example. And, what is more important is that the bill is always going to be paid by the ordinary citizen, not by the elite.

## ■ The way out

The many reforms in the Western Balkans in the past two decades have not significantly improved living standard and have not solved unemployment and poverty, because there were no reforms which targeted directly the elements of the damned triangle. Moreover, the laundry-list approach (simply to go for whatever reforms seems to be feasible, practical and politically doable) used in the region is faulty in its economic logic because of the existence of the principle of second-best, which means that any given reform taken on its own can be guaranteed to be welfare promoting, in the presence of multitudes of economic distortions. Therefore, Hausmann et al. (2005) argue that the right approach is to focus on the reforms that alleviate the most binding constraints.

This paper proposes three pillars of reform, which directly target the damned triangle: income inequality, neo-liberalism and populism and political patronage.

## ■ The first pillar: Democracy and the rule of law

The first pillar is a necessary condition for the success of any other reform. It consists of free and independent media, the judiciary and civil organisations, in order to limit the power of ruling political parties to control everything. Without these, the elites always will find a way to distort reform and direct it to serve their own interests. In some cases they will make gains for themselves directly, for example with corrupted

investment in infrastructure, or in some cases indirectly, for example with more money on social transfers to more voters. This pillar of reforms could be implemented on two levels. On the first level is the readiness of ruling political parties in the Western Balkans to implement democracy and the rule of law. On the second level is the will and strength of the EU to implement democracy and the rule of law in these countries as part of the integration process.

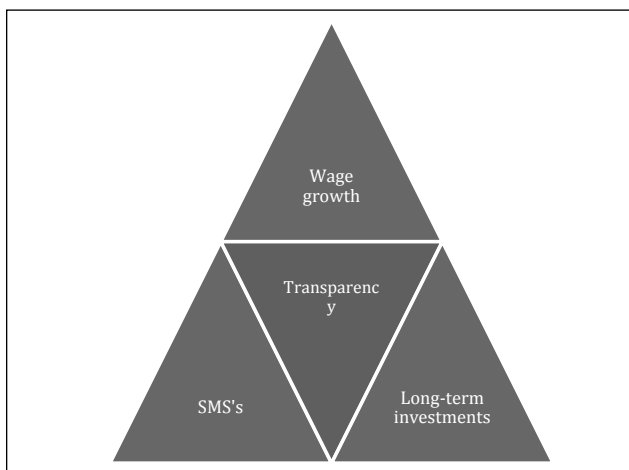
### The second pillar: Development strategy based on SME's, long-term investments and wage growth

The second pillar is about putting an end to populism and political patronage and implementing a new development strategy. The first logical step in the destruction of populism and political patronage is a significant increase in transparency in public spending.

The new development strategy for the Western Balkans should be based on small and medium-sized enterprises (SME's), long-term investments and wage growth (Figure 6). These three priorities are the complete opposite of the present development priorities of the region: FDI, short-term investments and low wages and poor workers protection.



Figure 6: The new development priorities

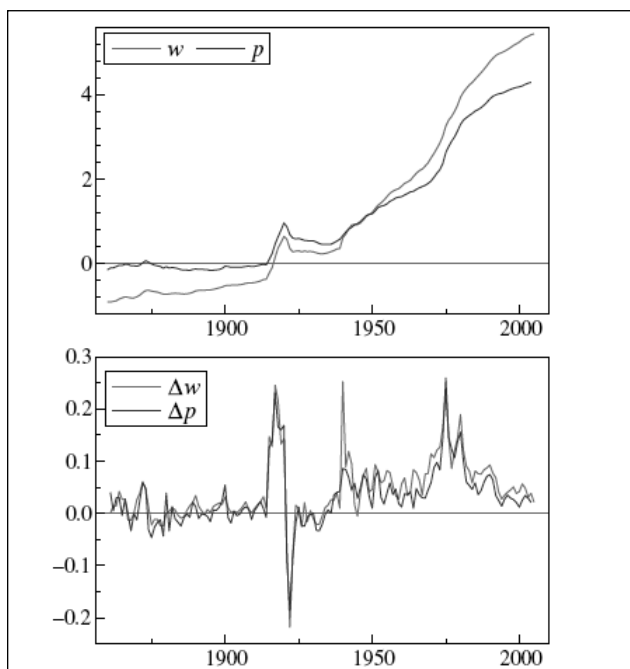


SMEs should be the primary recipients of FDI and be the key drivers of the economies. There are many regions in Europe that have managed to achieve significant growth thanks to SMEs. Therefore successful Western European practices should be used, side by side with increased government support for SMEs. In addition, the recent crisis shows that SMEs were a very important stabiliser of the effects of the recession in the EU in comparison with large companies, because they had a significantly lower number of dismissals (Gunila, 2013).

The investment strategy of the populists is aimed only at winning the next election. The Western Balkans countries need serious investments in energy infrastructure in order to provide for the future of

the economies. However, in most cases the economic power of the countries is not enough to build important infrastructure projects in the energy sector. Therefore, the solution is joint projects among the Western Balkans countries. Moreover, the region needs consensus on the important infrastructure projects of the next 20 years.

Figure 7: Log nominal wages and prices in the UK (upper graph) and their differentiation from the first row (lower graph), 1860-2004



Source: Castle and Hendry (2009).

Low wages and the removal of protection for workers lead to nowhere. They will simply make the region a loser in the big game between the countries. If wages do not grow and the difference from those in developed countries is not decreased, the rate of emigration from the region will continue, and they will be forced to work the worst jobs in order to provide a living for their families.

What can be done to drive up wages? Two remarks, the first of which is commonly known. Wage growth is determined by labour productivity, which depends on technological progress, education of the workforce, laws, income distribution and social structures. FDI has not brought significant technological progress, but SMEs could, especially if they are placed in a fair market environment. The Western Balkans should not be satisfied with the present educational system. It is time the countries adopted the complete educational model from successful Western European countries. Fair distribution of income is the goal of the third pillar. There is no doubt that more satisfied workers are more productive.

The second remark is a commonly not known lesson from history. The upper graph in Figure 7 presents nominal weekly wages and price levels (both in logarithms) in the United Kingdom (UK) in the period from 1860 to 2004. Wages are denoted with  $w$  and prices with  $p$ . The graph shows very clearly the period that is reflected in the books of Charles Dickens: a hard life and low living standards. It shows the situation in the UK in the nineteenth century. Although wages

continually grow (as a result of technological progress), they are below price levels. Then the Great Depression causes a strong oscillation in both wages and prices, but nothing important happens - wages are still below price levels. The twist happens at the beginning of the 1940s, when wages exceed prices. The key point is that this increase in wages is not a result of a continuing trend of growth (due to technological progress), but probably is a result of a specifically designed policy. The lower graph in figure 7 shows the changes in wages,  $\Delta w$  (difference between wage levels in the current period and wage levels in the previous period), and the changes in prices (difference between the price level in the current period and the price level in the previous period). At the beginning of the 1940s there is extraordinary growth in wages which is the initial trigger for UK prosperity. No information was found in the literature as to how this extraordinary wage growth was designed. It is known however that after the Second World War wage growth was supported by more a productive workforce as the result of the combination of the skills acquired by women in industry while men were in the armed forces, and the men learning many new skills in their various military activities together.

### ■ The third pillar: Social welfare state

The third pillar is the dismantling of neo-liberalism and replacing it with social justice. The first steps in developing a social welfare state in the Western Balkans should be: progressive taxation, a progressive scale

for the payment of key public goods, a fair minimum wage, youth guarantee, effective active measures for employment, social protection based on minimum income, increased child protection and care, real integration of people with special needs and more care for the most vulnerable citizens.

Two main forces could promote the social welfare state in the Western Balkans. The first are social-democratic or socialist parties from the region which must cut their strong linkages with the oligarchy and the class divisions in the societies. In some countries, there is also space for multiethnic parties, which will replace ethnic tensions in society with a new one – between the classes.

The second force is the EU. The EU has not shown any real interest in the promotion of the well known European social model in Western Balkans hitherto. However, it is the right time for this to be changed in the integration process.

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### **eko Bag: a social enterprise promoting inclusion and equality in Serbia**

The social enterprise *eko Bag* was officially established in Belgrade on 13 April 2010, immediately after completion of the training of a group of 15 women in sewing and tailoring specific materials - printed PVC foils from advertising campaigns. The training was organised using resources from the Department of Economics of the City of Belgrade, and the aim was to encourage the employment of vulnerable groups of the population. The project target groups were women over 45 years, who were left unemployed during the transition due to various factors (age, an inadequate level of education or a lack of certain skills), and had been denied the opportunity to access the labour market. The vocational training in sewing skills was followed by a three-day seminar on entrepreneurship and business skills (marketing, management, and communication).

Promotional activities and advertising of the concept began during the training, with the result that even before the official registration of the enterprise, the association got its first contract. That was a very strong motivational push and it strengthened the entrepreneurial spirit of the future founders of the social enterprise.

Upon completion of their training, nine women expressed a wish to establish a company together with the co-founder - Initiative for Development and Cooperation.

Three years after the official establishment of the enterprise, the following results have been achieved:

- The entire production process was approved and completed. The range of products was established after experimenting with a number of potential final products, and according to the results of market research.
- Four women are currently employed in manufacturing, and all four are also the founders and the owners of the equipment of the company, as well as the brand.
- A considerable number of partnerships with both civil and public sector partners were made, and the greatest emphasis was given to the largest and the most important target group, especially socially responsible companies and businesses, particularly those that use printed PVC foil in their advertising campaigns.

From the beginning, the promotion of the concept went relatively effortlessly and mostly without any additional resources, since the idea was quite original and unusual.

Despite the overall negative impact of the global economic crisis, business has increased, as well as their ambition. The idea is to engage young volunteers from the School of Design, and also to employ women in a similar situation, from the long-term unemployed population. Activities to further strengthen the brand in the future, as in the previous period, will be focused on promoting the concept of a social enterprise that employs vulnerable groups and helps them achieve

satisfactory living conditions, in order to promote socially responsible behaviour.

# Bosnia and Herzegovina in social limbo: stuck in the EU Accession

**Milos Solaja**

Professor, Center for International Relations, Banja Luka

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## ■ Introduction

Bosnia and Herzegovina (BiH) is not a typical post-socialist transitional country. Its transformation and process of change are specific because of a few differentiating factors: firstly, it was one of the least developed republics of former Yugoslavia, socially and economically neglected; secondly, due to World Bank estimations Bosnia and Herzegovina started its transition much later than all other post-socialist countries; thirdly, its external and internal relations are mostly dependent on the decisions of the international community which used to manage the state directly, imposing the complicated political system designed in the peace negotiations in Dayton (USA) 1995; fourthly, the model of privatisation is not socially friendly as it has

widened the gap between rich and poor, causing the disappearance of the middle class; fifthly, widespread corruption and organised crime have exhausted the social and material potential for faster development; sixthly, the political elite does not have any clear idea about how to find a way out of the economic and social limbo in BiH; seventhly, the internal political instability does not lend itself to supporting economic and business ideas and initiatives; eighthly, workers and other productive groups are not organised. At the moment there are no clear signs of a credible establishment of social rights or of recovering the middle class. The question is whether hitting rock bottom would lead to a major shift towards European values. Could this be the catalyst for bottom-up initiatives that would put pressure on government institutions to build a transparent, representative political system?

Bosnia and Herzegovina has recently received its fifth negative European Commission Progress Report on the Process of European Integration in succession. This Report highlights the many failings that are delaying the country's integration into the European Union, making it much slower than expected. Almost all findings in all areas of monitoring reveal a lack of reforms and of the positive changes needed to provide the necessary environment for social change towards a so-called horizontally regulated society to replace the vertical structures of power, nurtured during the previous eras of socialism, traditional kingdoms and dictatorship. BiH today suffers from a huge gap between rich and poor and an increasing social gap between classes.

Bosnia and Herzegovina belonged to former socialist Yugoslavia which developed formal structures for social equality and social rights. For almost four decades the Yugoslav League of Communists (avoiding the term party) implemented the concept of self-management in order to enable a formal workers participation to play a crucial role in decision making not only in company management but in all spheres of society. This social environment combined with an unfinished market economy led to false hopes that the country was ready for transition. This belief was based on collective workers ownership, specific forms of market economy and formal trading and the political openness of Yugoslavia with foreign countries. This should have been the precursor of share-holding capitalism and efficient economic and market integration. Unfortunately, the lack of a democratic culture and of any experience of entrepreneurship meant Bosnia and Herzegovina was unprepared to make the necessary changes. The economy was based largely on so called hard core industry built up under the strong influence, even direction, of communist rulers. Enterprises in the military industry, steel and machine production and coal mining were state owned and state managed, and all run at a very low technological level. It provided work for many poorly educated people providing mass stability but low social standards. Through this system, together with a few workers employed in private and technologically backward agriculture, the former rulers bought social peace for years. In the decades leading up to the break-up of Yugoslavia a significant number

of workers were employed in Western Europe, further helping the situation by sending remittances home.

The trade unions were ideologically oriented, formally organised as an extension of the communist party, creating a situation that prevented workers from insisting on stronger workers' rights and improvements in their social position. The broad mass of workers were simply thankful for basic survival. They were not educated and motivated enough to fight for better living conditions and more rights. At that time the middle class was predominantly employed by the state. Very few private entrepreneurs were allowed in the service sector and they didn't possess the critical mass needed to bring about change. When the economic crisis took hold and the Cold War ended, the communists lost the ability to rule, but the middle class were not developed enough to take over political power. The nationalist emerged as the saviors, using the same methodology for ruling the country as the communists, promising a lot without taking responsibility for delivering what they had promised.

## ■ Transition and privatisation

Bosnia and Herzegovina had got rid of communism but had replaced it with a nationalist clone, following the first free and fair democratic elections' in 1990. The change in basic values was not clear enough. Many really believed a change of system would bring milk and honey, simply adding the advantages of liberal democracy to a high level of formally achieved social

rights. The majority did not understand the need for individual responsibility in terms of initiatives, rights and risks. They were still caught in a collective system, this time in three national communities. National tensions mounted and reached a level that made war unavoidable. A nation (people) became the main goal, and the idea of a middle class disappeared during the war. Nobody talked about individual human rights, either workers or social rights. Post-conflict reconstruction and development was managed mainly by the international community, including peace-making and the plans for economic recovery. Unfortunately, the entrepreneurs came mainly from either the former state-managed bureaucracy or they were the new wave fledgling tycoons that emerged after the fall of Yugoslav socialism. Neither were interested in promoting social rights or reviving a role for the middle class. Social equality, workers protection, small and medium-sized entrepreneurship were lost. Immediately after the war in BiH nobody tried to define the concept of transition in post-conflict BiH. The international community tried to impose the models previously implemented in Central and Eastern Europe but it didn't work. A society of three nations and a power sharing state approached transition as a two-way interaction between the old communist political elites (supposedly transformed) and the new, fledgling business elite which had survived but was raised on the soil of the earlier, controlled economy. Neither were interested in the middle class. Furthermore, the failure to upgrade technological knowledge and skills drove the majority into even greater poverty. For many their



only hope was to wait to be given a job by somebody, in a passive acceptance of the situation, with no attempt to find a solution.

Privatisation did not lead to profits, it was driven by a desire to grab as much money as possible. The new tycoons established close links with corrupt authorities and rulers and in that process destroyed any power of social movements and the middle class as the main backbone of a welfare society. The entire process was so delayed that the World Bank estimated that Bosnia and Herzegovina's transition started in 2004. This should have meant some basic preconditions were met, but this does not seem to be the case as transition in BiH has still not begun. Above all, BiH does not have a democratic constitution based on political stability, which is needed to provide the preconditions for economic development. Unfortunately, a badly designed and badly managed economy combined with unbridled and failed privatisation has not provided the right environment for people who would like to work on their own either as self-employed workers or as creators of small and medium-sized enterprises. A clear illustration of this problem is the almost unimaginable rate of unemployment – more than 43%. The number of people employed is about the same as the number of pensioners. Both factors are very unhealthy for the future development of BiH.

How do ordinary people survive? The real unemployment rate is much less than the official rate, at about 25%. Many of the informally employed are registered at the unemployment office only to qualify for health care insurance or some other privileges. They

earn only enough to survive, but they have a negative impact on the state budget and public spending because they don't pay contributions to the budget or the pension scheme, health insurance or any other public funds. This slows down development. Furthermore the economy is in decline. GDP in BiH today is barely 60% of GDP in 1990. The outlook for development is far from promising. Furthermore, the trade-unions are a self-proclaimed working aristocracy not connected with real workers conditions and needs. Trade unions are usually corrupted by the ruling powers in order to keep them inactive and silent. The workers are disorganised and confused without any proper force to articulate their dissatisfaction and interests, or their wish to be properly employed. Furthermore, as the country is lagging behind in terms of its industrial and social experience, it is poorly adapted to a new labour environment. The vast majority of BiH industry was built without a significant industrial tradition. Almost everything that was developed in BiH was created for strategic reasons by the former Yugoslavia. It was part of its metal and military industries, based on ideology, leaving little room for any influence by the working class. The rapid transformation of a rural workforce into an industrial one, over two generations, was not accompanied by an equally rapid transformation of labour policies, and the right structures were not in place before the civil war in Bosnia and Herzegovina began. This has not provided a good foundation for a stronger role by the middle strata social groups in a neo-liberal political and economic environment.

## ■ International community

From the very beginning of the Yugoslav crisis the international community has been an active participant in attempts to find a stable solution. BiH has proved to be the most complicated situation to solve. There are three main obstacles to stabilisation. The first is the multinational structure of the country with a legacy of national and ethnic differences. This is the key political factor that overrides all other social processes including the development of the normal links between work and benefits, and the position of middle-class workers and small entrepreneurs as natural social partners. The dominance of national interests has pushed all essential considerations into the background. The second obstacle is that the international community failed to take a pro-active approach to related processes, assuming that they would occur naturally as a result of reconstruction and investment in infrastructure as the cornerstone of a liberal economy. Unfortunately, badly managed privatisation and excessive liberalisation has reduced economic capacity and prevented any significant participation by the middle levels of society in defining the economic environment and the future. The internal drivers of the economy were neither interested nor able to create the necessary policies for development, and so the economy shrank to below critical operational levels. The entire economy was overshadowed by the enormous corruption in the public sector which criminalised society and the economy. The third obstacle was the acceptance of the constitutional status quo – Annex Four of the

Dayton Peace Accord, which means the Constitution is an international settlement and not a basic agreement by the citizens of Bosnia and Herzegovina. An attempt at constitutional change adopted by the BiH Parliament in April 2006 failed, as did the weakly implemented Butmir process two years later. Since those failures the international community has not come forward with any viable initiatives for progress in BiH. The framework set by the 1995 Dayton Peace Accord remained unchanged, and BiH failed to establish its own identity as a state either externally or internally. The Stabilisation and Association Agreement with the European Union signed by BiH was not enough to make it adapt to the new reality and was implemented still using temporary trading arrangements. This indirectly posed a barrier to focusing on reviving work, production and purchasing. The cumulative effect of all this is that Bosnia and Herzegovina is ranked 131<sup>st</sup> on the World Bank's Doing Business Index, by far the worst in the region.

## ■ Corruption and organised crime

Corruption among politicians and civil servants, at every level, is not confined to BiH. Crime and corruption networks operate across the region, both internally and across borders. Despite many analyses of the situation, and numerous anti-corruption and anti-crime policies there are no signs of any improvement. It is a sign of instability which deters potential investors both foreign or domestic, keeping the countries' credit rating low. It also stimulates social distortions and discourages

many ordinary people from trying to find a normal way of working and a stable life style. The weak political structures and political system in Bosnia and Herzegovina enable a combination of the old fashioned neo-nationalist elite and the new tycoon class to exploit all the advantages of a transitional economy. They are not interested in supporting a revival of a broad group of educated and technologically skilled employees or small businesses. They see the middle class as a threat to their business interests, which are based on close links with the highest political authorities and carried out through non-transparent investments. A natural consequence is the widely visible nepotism in employment which in addition discourages any systematic efforts for positive selection in education and employment. Consequently, the Transparency International Corruption Index gives BiH a very low score of 42, putting it in 72<sup>nd</sup> position. Similarly, the BiH scores just 4.75 on the Freedom House index (the lowest is 7). Both results show BiH is a highly corrupted country.

### ■ Social elites

An analysis of the political elites in Bosnia and Herzegovina deserves particular attention. The still emerging national elites basically grew up under the wing of the communist party. At that time many were low-ranking members who used transitional changes to grab power. Only a few were from the new national elite but they successfully combined forces with former communists. The price for this was getting rid of

workers communist ideology and accepting a more liberal ideology and institutional rule. They were quick to forget former comrades and other fellows who also paid a price by losing jobs and opportunities. Former communist colleagues treat the new elite as traitors but they have continued to entrench their positions of power. The power sharing foundation of the country enables the existence of three national political and economic elites, balancing internal political relations, and economic cooperation. The final result is a constantly growing gap between an ever narrower rich elite and a steadily poorer population. As the groups at the top get richer and richer, holding on to power has become their final goal. As they use their power to protect specific interest groups, the elites are not keen to change established social relations. The BiH political elites are not sincere, regardless of their rhetoric about wanting Euro-Atlantic and European integration. If BiH were to achieve integration, most of the elites would not be ready to represent the country in the EU. The only way to play a key role in policy in Bosnia and Herzegovina is to keep it as close as possible, but far away from integration. The BiH elites usually use national tensions, social conflicts and political instability in order to make themselves seem more important in the integration process than they really are. Keeping a certain level of underdevelopment and keeping the middle class down disappoints and discourages the middle class from any stronger activities, from better and systemic organisation and from creating an efficient public administration. The country scores just 5.00 (very low) on the index of

efficient government, while the quality of local public administration is also marked at 4.5 by Freedom House. The political class doesn't have any clear vision nor does it feel it has a mission to achieve any goals in the future beyond its own survival as a ruling power.

### ■ Workers and the middle class

Nationalist sentiments are still used to keep the middle classes inactive and silent. Generally, nationalist goals still take precedence over economic and social considerations. The governing classes use fear as a means of control, notably fears of tensions and potential conflicts, and as a means of avoiding any social responsibility for their increasingly poor fellow citizens. On the other hand the continuing tensions serve to keep the political elite as partners in the international community which does not want to abandon its existing pillars of influence.

### ■ Disorganised middle social level

The middle classes, lacking any form of organisation, accepted civil war and nationally based policies at the time, believing in the ability of their national leaders to create the conditions for a better life. First they waited for the war to end for employment levels to be restored, then they found themselves waiting for a miracle in which employment would magically be restored, without any idea how companies would be managed. This mentality comes not only from the war but is a hangover from the

old paternalist socialist model which used to guarantee job security and social stability together with many other social rights such as cheap accommodation and other privileges. The ideologically founded trade unions were not able to raise workers' expectations or improve the situation of the employed or unemployed workers. They failed to improve their activities and organisations or use the institutions of democratic society. The passive middle class is still not motivated or educated enough to take on the role of social engine. It is still dependent on the policies of the national elites and weak and corrupt trade unions, nor does it have the energy to demand changes. On the one hand, the loss of technological skills, manufacturing knowledge and working practices and a will to participate in the production process led older workers and small private owners to obtain pensions, regardless of the monthly amount. Some of them try to find opportunities on the black market – smuggling, non-registered private initiatives, agriculture etc. On the other hand, the young generation which does not have the mindset or skills of the working class usually tries to obtain some sort of high education hoping it will help them earn a better income without joining the stratum of productive workers, and intending to become a part of elite. Massive, artificial and nepotistic employment in public administration has shifted human values away from beneficial and useful employment to the values of money and selfish individual gain.



## ■ Political instability

The entire social fabric of Bosnia and Herzegovina is politically very unstable. A weak constitution and political system, a de facto and de jure international settlement signed by the leaders of three national communities, hasn't provided the ground for political stability. It has left an open space for argument and political conflict between national elites and political leaders on behalf of their fellow nationals. Everything in Bosnia and Herzegovina is weak and questionable. For almost a year and half BiH was not able to legalise its institutions after the last general elections. Even after reaching a very basic agreement on Parliament and the Council of Ministers, the country has been continually in the grip of volatile and very changeable ruling party combinations. The majority of political actors, the media and the entire population are faced with permanent political crisis and uncertainties. Caught up in this continual unresolved crisis BiH has almost daily convinced internal and foreign political actors it is not ready to achieve the necessary level of stability and security. Bosnia and Herzegovina is imprisoned in its own instability and lack of vision and ideas about a way out of permanent crisis. Political stalemate leads to the absence of the rule of law, a lack of economic vision and of economic policies. The biggest victim of this instability and uncertainty is the middle class - people who do not aim to belong to the highest political and economic elites but to live by their own means as simple employees in public institutions, or other enterprises, by creating

their own small and medium-sized enterprises or by working in the service sector. This social stratum should provide a solid foundation for society. A normal chain of production, democratic decision making, individual social stability and consumer policies, including a good education and social protection together with the other advantages of a welfare state provides long term stability. Unfortunately, the unresolved national deadlock in Bosnia and Herzegovina has brought all other policies to a standstill. That is why the decision regarding the non-discrimination of national minorities passed by the European Court of Human Rights in the very well known case Sejdic-Finci in 2009 has still not been implemented despite the many efforts of the European Commission and other actors in the International Community. BiH political parties, as the basic stakeholders, disagree about all possible issues. National parties as partners in BiH politics have been unable to find a common solution for implementation because all sides have submitted and intend to realise other, different, political goals, under the umbrella of the initial ECHR decision.

## ■ Conclusion

Bosnia and Herzegovina is a very specific case due to the way the country was founded and the design of its constitutional and political system, the main feature of which is incomplete statehood, related to internal as well as external circumstances. It is still in transition from a former very extensive socialist economy. BiH is still politically unstable and lacks vision as well as any

clear economic concepts or strategies. These unfinished political and economic issues are also driving the country into social limbo. The risk is that it is becoming so embroiled in these difficulties that it will not be possible to find a solution in the near or even more distant future.

The consequences of this political and economic stalemate are particularly visible among the middle class which is facing serious difficulties. There is no place for this social stratum in the country's transition process. The international community invested a lot in political stabilisation, democracy education and enhancing civil society, the return of refugees, reconstruction of infrastructure and financial support for development through the international financial institutions. But despite the billions of dollars or Euros invested, very little money was devoted to strengthening workers' associations or education on the role of workers in a new political and economic environment. The majority of this social group is still mentally and emotionally stuck in the former age of socialism and has not adapted its behavior to transition and the new environment. The old ideology and old workers paradigm prevails, as they cling to memories of previous times, in a state of what has been termed Yugo-nostalgia or Tito-nostalgia. Responsibility for this situation lies largely with the current leadership and elites who have avoided dealing with the problems and situations of the middle level class. Unfortunately, there is not a large enough group of people, and they are not organised enough, to overcome the memories and old way of thinking of the middle classes. On the other hand a corrupt, clientelistic and crony economy

is the main obstacle to faster and more progressive development. These distortions discourage local financial sources from investing in services, and small and medium-sized enterprises. To clean up this situation there is a need to harmonise the social, labour, financial, economic and criminal legislation in order to create an environment that nurtures a culture of work, with clear regulations protection employees and other middle class groups. A failure to do so will mean that the gap between rich and poor will continue to grow. Without a revival of the middle classes, a stronger policy position and more democracy, it will be difficult for Bosnia and Herzegovina to move further along the path to the EU.

The question is, what needs to be done in order to revive the middle class? Political stabilisation should be the most important goal in the case of Bosnia and Herzegovina. But that stabilisation is not imaginable without an internally discussed and adopted constitution. Implementation of the ECHR's Sjedic-Finci decision is only the first step. Another point should be to get rid of corruption and other distortions in the economy. This should begin with clearly defined economic policies, strategies and projects, in line with internal objectives. Goals should include the revival of labour, its institutions, role in society, education and innovative policies as a key factor of a modern economy. It requires a break away from the old ideologies, knowledge, habits and old expectations and a better organisation of labour's activities including changes in and improvements to the trade-unions, a better articulation of interests and target-oriented efficient activities.

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# Global economic crisis, social welfare and social disparities in South East Europe: Understanding the crisis' effects on employment

**Qerim Qerimi**

Lecturer, University of Prishtina and Visiting Scholar,  
Harvard University

**Bruno S. Sergi**

Professor of International Economics, University of  
Messina and Instructor, Harvard Extension School

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## ■ Introduction

As the financial crisis spilled over into the real life, its effects, with varying magnitude, ranging from relatively consequential to devastating, were such that they inescapably impacted lives and livelihoods across the planet, with the poorest, most vulnerable and marginalised bearing a particularly heavy burden. The crisis would appear to have had a disproportionate impact on the social and economic rights and well-

being of specific groups of people, in particular women and children, migrants and minorities. This chapter, which looks specifically at South East Europe, seeks to explore the impact of the global financial crisis on employment and poverty trends across the region. It seeks to delineate the extent to which unemployment and, where applicable, poverty trends have been affected by the crisis. Nevertheless, participation and employment rates can differ, as they do in many of the countries under observation, according to gender, level of education, age or urban/rural origin. The crisis' ensuing social gap, including its precise scope, is a focus of particular scrutiny. The data used mainly originate from agencies such as the World Bank, IMF, ILO, and national bureaus of statistics.

The most recent history of the Balkans has shown signs of an overall appreciable political stability. Albeit in some places fragile, the political landscape of the Peninsula is nonetheless more peaceful than perhaps any other period since the 1990s conflicts in the Balkans emerged or reemerged. The interventions and involvement of the international community, together with changes brought from within, have shaped the socio-economic climate in the region. The trajectory of progress may not, however, be taken for granted. The process of transformation is encountering difficulties. Social stability is a fundamental prerequisite to any meaningful development, and its absence can lead to tension or instability.

Our data speak not only of an already high level of unemployment in the Western Balkans region but,

in many cases, of a further rise in the aftermath of the global economic crisis. Unemployment rates in the region rose by about 2%. In the EU countries, this increase was about 2.4% (Balaj, 2010: 41). Yet, there is still a clear difference, with unemployment rates in the region significantly higher than the EU27 average (Galgóczy & Sergi, 2012). Globally, the number of people unemployed in the world increased by almost 34 million between 2007 and 2009. According to ILO estimates, the global unemployment rate in 2009 was at 6.6%.

Table 1. Number of the unemployed and unemployment rates globally

Unemployed	Years		
	2007	2008	2009
Number of unemployed (millions)	177,7	184,9	211,5
Unemployment rates (as %)	5,7	5,8	6,6

Source: ILO (2010).

The findings of a report published by the Institute for Regional and International Studies (2010) forecast a very difficult and slow process of recovery in the job market, and further and continuing pressure on state welfare systems and public budgets. As the report puts it (p. 9), *“sustained unemployment may cause social tensions and bring a rise in some crime forms and the grey economy.”*

The relationship between the global and local appears to be very strong both in terms of the consequential



downturn and its aftermath. It is worth recalling that one of the key traits of the economic crisis was a sudden collapse of credit on a global scale as banks stopped lending to each other in fear of unknown consequences and uncertain exposure to toxic debts (Roubini & Nihm, 2010). The effects soon reached the South East Europe theatre, and their negative impact was more strongly felt in those countries where banks were internationally owned and the magnitude of integration with global markets was higher. Turkey, for instance, was only modestly affected, as most of its banks were domestically owned.

Beyond triggering a sudden collapse, the effects of the crisis were also felt on other fronts. Due to the Eurozone crisis, remittances from migrants have been on the decrease. This poses another challenge to the social welfare systems of the South East European countries, in particular as the region's countries – some more than others – rely relatively heavily on remittances. Although the precise data on remittances may not be easily obtained and their accuracy is by their nature

Table 2. Remittances in five Balkan countries

Country	Remittances as a share of GDP, 2008 (%)	% decline in remittance flow 2008-09
Albania	12.2 %	0.0 %
Bosnia and Herzegovina	14.8 %	3.9 %
Croatia	2.3 %	1.9 %
Macedonia	4.3 %	1.3 %
Serbia	11.1 %	1.8 %

Source: World Bank remittances database.

difficult to ascertain, the following Table 2 offers an important indication of the pertinent trends (data for Kosovo and Montenegro are missing from the World Bank remittances database; however, according to IMF data, Kosovo's remittances as a share of GDP fell from 12.6 % in 2007 to 11.9 % in 2008 to 10.7 % in 2009).

## ■ The state of (un)employment

Despite sustained economic growth and stability, labour markets have not shown any significant improvement, with high unemployment rates in the region, which are especially stark in Bosnia and Herzegovina, Kosovo, and Macedonia. Indeed, the effects of the global economic crisis are clearly part of this equation. The following Table 3 presents the state of unemployment in the Western Balkan countries over the recent years.

Table 3. The impact of the global economic crisis on the state of unemployment in the Balkans (%), 2007 – 2010

Country	2007	2008	2009	2010
Albania	13.8	12.5	12.8	13.5
Bosnia and Herzegovina	43.2	45.5	40	43.1
Croatia	11.8	13.7	16.1	17.6
Kosovo	40	42-43	45	43
Macedonia	34.9	33.5	32.2	31.7
Montenegro	14.7	17.5	20.3	19.2
Serbia	18.8	14	16.6	19.2

Sources: European Bank for Reconstruction and Development; World Bank; International Monetary Fund; CIA World Factbook.

A country-specific presentation is offered in Tables 4 to 10. The negative effects of the global economic downturn are not difficult to see. The impact is perhaps more apparent in the cases of Croatia, Serbia, and Montenegro (Tables 6, 9, and 10). As indicated, the highest levels are to be found in Bosnia and Herzegovina, Kosovo, and Macedonia (Tables 5, 7, and 8).

Table 4. Unemployment rates in Albania (% of labour force without jobs)

Year	1997	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
%	14	16	17	17	15.8	14.8	14.3	13.8	12.5	12.8	13.5

Sources: International Monetary Fund; CIA World Factbook.

Table 5. Unemployment rates in Bosnia and Herzegovina (% of labour force without jobs)

Year	2000	2001	2002	2005	2006	2007	2008	2009	2010
%	35	40	40	44	45.5	43.2	45.5	40	43.1

Sources: International Monetary Fund; CIA World Factbook.

Table 6. Unemployment rates in Croatia (% of labour force without jobs)

Year	1999	2000	2002	2003	2004	2006	2007	2008	2009	2010
%	20	22	21.7	19.5	13.8	18	11.8	13.7	16.1	17.6

Sources: International Monetary Fund; CIA World Factbook.

Table 7. Unemployment rates in Kosovo (% of labour force without jobs)

Year	2007	2008	2009	2010
%	40	42-43	45	43

Sources: International Monetary Fund; CIA World Factbook.

Table 8. Unemployment rates in Macedonia (% of labour force without jobs)

Year	1999	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010
%	35	32	37	36.7	37.7	37.3	36	34.9	33.5	32.2	31.7

Sources: International Monetary Fund; CIA World Factbook.

Table 9. Unemployment rates in Montenegro (% of labour force without jobs)

Year	2007	2008	2009	2010
%	14.7	17.5	20.3	19.2

Sources: International Monetary Fund; CIA World Factbook.

Table 10. Unemployment rates in Serbia (% of labour force without jobs)

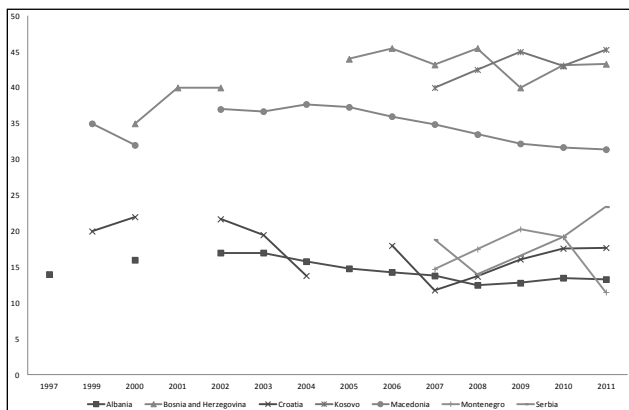
Year	2007	2008	2009	2010
%	18.8	14	16.6	19.2

Sources: International Monetary Fund; CIA World Factbook.

A longer-term perspective is given in Figure 1, although the data is evidently incomplete.

For the purposes of the data in Figure 1, unemployment is defined as the percentage of the labour force that is without a job.

Figure 1: Unemployment rates in Western Balkans countries



Sources: International Monetary Fund; CIA World Factbook.

The ranking of the countries of the region, seen from a global perspective, are presented in the following Table 11. The Table, composed of data taken from the CIA World Factbook, shows where the countries unemployment rates rank in terms of global unemployment levels, which have evidently risen in the wake of the global economic crisis. The statistics show the labour market is in an alarming state in most countries in the region.

Indeed, the effects of the global economic crisis are clearly part of this equation. Richard Dobbs and Anu Madgavkar (2012), researchers at McKinsey, authored a survey on “Why the jobs problem is not going away” and offered an analysis of the mismatch between the demand for and supply of graduates that will expand

Table 11. Unemployment rate (%) 2012 country ranks (beginning with the highest rates of unemployment)

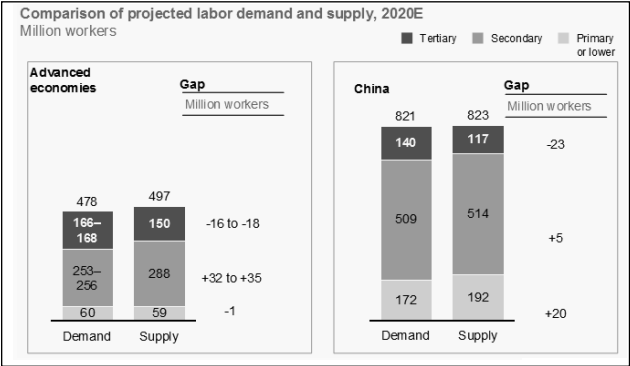
Rank	Country	Value	Date of Info
11	Kosovo	45.30	2011 est.
13	Bosnia and Herzegovina	43.30	2011 est.
26	Macedonia	29.10	2011 est.
40	Montenegro	19.50	2011 est.
43	Croatia	17.90	2011 est.
46	Serbia	16.70	2011 est.
60	Albania	13.40	2011 est.

Source: CIA World Factbook 2012.

even further by 2020. In the advanced economies, demand could fall short for a total of 16 to 18 million graduates, i.e., a supply 11% less than demand, with potentially damaging consequences for GDP growth. The mismatch between the demand for and supply of highly-qualified professionals is a major problem and overcoming it is essential for growth.

The competitiveness of the SEE region also depends on people's skills, quality, innovation and the existence of a national, as well as regional, system capable of enhancing these ideas. It is essential that young people, – apparently the group most affected by the global economic crisis, – be placed in conditions in which they can choose training in line with business and other market requirements. Not surprisingly, companies have increased their focus on the issue of the quality of human resources, focusing even more on excellence in regional and international competition. However, with only a few

Figure 2: Projected labour demand and supply (advanced economies and China), 2020E



Notes: Gaps are % of demand for shortages, and % of supply for surpluses. Numbers may not sum due to rounding.

Sources: United Nations Population Division (2010 revision); IIASA; ILO; Global Insight GDP consensus estimates; country sources for the US and France; China National Bureau of Statistics; McKinsey Global Institute analysis.

exceptions, the region has a very traditional model of development, with little technology, and a background and a trend whereby well-prepared graduates emigrate to find better job opportunities (Qerimi & Sergi, 2013).

If, on the other hand, we look at wage developments in the region, we can note signs of consolidation. Wage dynamics – for those who are in work – seem to be impressive (Table 12). Serbia and Montenegro, which also had a comparably more balanced labour market, take the lead, with real wage increases of 145% (Serbia) and 95%(Montenegro), respectively. Among those South East European countries for which data were

available, only Croatia had a lower real wage increase than the EU-27 average over the course of the decade, but Croatia also had an outstandingly high wage level for the region.

Table 12. Monthly remuneration per employee, 2010

Country	Euros	% (EU-27 = 100)	Index of real wages, 2009 (2000=100)
Albania	246	8.9	n/a
Bosnia and Herzegovina	622	22.4	n/a
Croatia	1 054	38.0	121
Macedonia	491	17.7	159
Montenegro	715	25.8	195
Serbia	461	16.6	245
EU-27	2 776	100	134

Note: Data for South East Europe refer to average gross monthly wages.

Source: Vienna Institute for International Economic Studies (2011).

The GINI index measures the extent to which the distribution of income among individuals or households deviates from a perfectly equal distribution. A GINI index of zero represents perfect equality – everyone has the same income – while an index of one (100 on the percentile scale) implies perfect inequality in the income distribution (one person has all the country's income; everyone else has nothing). Growing income inequality is a general trend in Europe and there is no evidence to support the assumption of an equality-efficiency trade-off. Depressing wages has led to a loss of efficiency,



with the purchasing power of the population being maintained through credit that has eventually built to unsustainable levels and resulted in a debt crisis (Galgóczi & Sergi, 2012).

### ■ Global financial crisis and social disparities

So far, the focus has been on the broader state of social welfare. The relevant state and trends were explored in light of the global economic crisis and the influence it exerted on the labour markets in the South East European region and, to a certain extent, also globally. A more complete and comprehensive vision of this state of affairs would benefit significantly from an understanding of the effects produced on different social categories. Certainly, participation in labour markets and employment rates differ significantly according to age, gender, level of education and other similar criteria. As argued by the ILO (2010), it has indeed been the young who have been hit badly by the global financial crisis.

Statistics show a particularly dramatic increase in youth unemployment in the SEE region. The unemployment rate of those in the 15-24 age group in Bosnia and Herzegovina reached 57.9% in 2011 (Agency for Statistics of Bosnia and Herzegovina, 2011). In Montenegro, the unemployment rate for the same group was 40.4% in the first quarter of 2012 (Montenegro Statistical Office, 2012). In the same period, Croatia registered 45.2% unemployed among those aged 15-24 (Croatian Bureau of Statistics, 2012). In Serbia, in April 2012, this percentage was as high as

50.9 (Statistical Office of the Republic of Serbia, 2012).

In contrast to the tough unemployment rates in the SEE countries observed above, in the Eurozone youth unemployment among the under-25s was 22.4%. It must, however, be noted that in those EU Member States that were most severely hit by the crisis, youth unemployment rates were similar or even higher than some of those in the Balkans region. For instance, in Greece and in Spain, youth unemployment reached 51.5% and 52.7% respectively in June 2012.

The global economic crisis has also impacted other dimensions of labour, resulting in some countries with increased and higher unemployment rates for men than women. This effect is more prominently exposed in the case of Croatia, where the unemployment rate for men increased three times more than that for women. The same pattern, though to a different degree, was present among other regional countries. Thus, the unemployment rates of men were also significantly higher than those for women in Bosnia and Herzegovina, Bulgaria, Montenegro and Serbia. Romania would appear to be the only exception in the broader region, where the female unemployment rate has increased by more than the male unemployment rate (Bartlett & Uvalić, 2013).

## ■ Growth and good governance

Another critical factor in the gamut of variables that could influence the state of social welfare are the broader economic variables. Appreciable economic growth, as

measured by GDP growth, could be found during the past decade everywhere across the SEE region.

Notwithstanding the relative increase in GDP, excluding the presumably temporary effects of the global economic downturn, the region suffers from a number of phenomena that prevent it from growing into a strong and stable economic arena, hence one that is conducive to a flourishing environment for stable cross-cultural interaction.

One of the region's persistent challenges is strengthening the rule of law, in particular the institutions that are empowered to enforce laws (Qerimi & Sergi, 2009; Sergi & Qerimi, 2006, 2007 and 2008). The problem of corruption has been one of the most enduring dilemmas confronting governments throughout history and it remains one of the most serious problems in the Balkans today, along with organised crime. These high levels of corrupt behaviour testify to the difficult path of reforming the institutional structure and strengthening the rule of law. It has been widely noted that economic activity in the region is often associated with, among other things, smuggling, extortion and tax evasion (Meyer & Nash 2002). Such factors have a considerable impact on the region's governments in their efforts to develop and stabilise their economies and collect revenue. This is certainly a major obstacle to attracting foreign investment. Establishing the rule of law is therefore of paramount importance. The notion of the rule of law should be reflective of its key elements. It should particularly involve the indispensable notions of any institutional reform process, namely independence,

accountability, representativeness, openness, oversight, gender sensitivity, and access to justice (Ndulo & Duthie 2009). Surely, interests are better served by open and transparent competition.

The major thrust of the South East European governments' effort will have to address the problem of corruption and the ineffective rule of law, as a matter of policy and as a part of their broader programmes on governance and capacity building. There are some priority areas for the governments to concentrate broader efforts upon. These include policy dialogue directed toward economic liberalisation and public administration reform, the liberalisation of licencing regimes, the opening up of access to foreign exchange markets, the reduction of administered prices, the removal of subsidies and soft loans to favoured companies, and the introduction of a clear distinction between production and regulatory functions. These are all policy changes that can level the playing field and reduce opportunities for corrupt or illicit behaviour.

### The demand for reform: Alternatives and avenues

Some analyses may support the view that what has been taking place in terms of enterprise reforms in the region can be regarded as a process of rational. The EBRD (2002) scored achievements in terms of enterprise reforms, market and trade reforms, and financial institution and infrastructural reforms. All the countries in the region have done well in terms of reforms of

small-scale privatisation, trade and the monetary system, as well as with regard to price liberalisation (scores between 3 and 4 +). However, with regard to banking reforms, the EBRD reports either little progress or no progress at all (that is, between 1 and 2+, with a few scores of 3–). The EBRD's (2002) analysis suggested that further reforms are necessary, although improvements have recently been recorded in most areas, especially in the EU candidate countries. The EBRD analysis also mentions the need to fight corruption.

The main aspects in need of evaluation are social stability, EU membership, how to attract more capital and the future of industry. These are not separate issues and depend on the credibility of the entire Peninsula as a potential new focal point for entrepreneurs. These countries must exhibit further progress in reform to be able to attract FDI (see, for example, Lankes and Stern, 1997; Sergi, 2003a) and liberalisation measures have indeed been taken recently (for example, in Montenegro and Serbia). In the field of fiscal policy, there is a broad consensus on its use as a means of attracting investors although to a much a less extent than it has been in the past. In fact, these countries continue to benefit from significant labour cost advantages, even adjusted for labour productivity, as well as low corporate taxes and continuing tax competition (Kubicova, 2004; Sergi, 2005).

Some improvements in stability and economic freedom have been accomplished, while FDI has had positive effects in local subsidiaries and a further multiplier effect may be expected through supplier

chains. Future positive spillover effects as regards domestic companies and branches and human capital, in addition to the transfer of technological expertise and the diffusion of up-to-date management techniques could prove important for socio-economic growth, in its broadest sense. The rise in labour productivity and the significantly increased export orientation of FDI subsidiaries makes all countries highly dependent on the situation in EU markets.

Nevertheless, instability, low intra-regional trade, low aggregate demand, trade and so on are the other side of the coin. Apart from Croatia (the last EU member, as of July 1, 2013), exports to the EU in the SEE rely on unskilled labour and low technology. For that reason, creating good medium-term prospects through regional integration (defined as a condition for the EU accession of the remaining SEE countries) is important (Sergi, 2003a). Thus, expanding regional cooperation, which so far has been strongly limited to specific areas and largely imposed by the international presence in the region, would further advance SEE–EU relations. Of no less importance and urgency is the challenging task of fighting and making progress in such damaging areas as corruption, organised crime, human trafficking and illegal trading. Together, these factors are of decisive importance in attracting further foreign investment and generating substantial changes in economic growth. Critical to progress on these issues is the establishment of robust and sustainable patterns with regard to the rule of law. The EU's Stabilisation and Association Process provides helpful guidelines on

the adoption of the relevant policies and strategies to strengthen the rule of law.

## ■ Conclusion

This chapter has espoused the real social welfare difficulties among the South East European countries. The Eurozone crisis and, in fact, the overall global economic downturn, have had noticeable negative effects on the already high unemployment rates of the region, and have further contributed to social disparities between varying groups, be it gender or age-based.

The South East European countries have to vigorously pursue economic and democratic governance reforms, strengthen the institutional setting, fight corruption, enhance competitiveness, and deepen regional cooperation. A functioning single economic space in the region, along with sustained EU integration and financial sector reform efforts, is a path to not only revive the weakened economies, but also set the stable parameters of a longer term strategic social and economic betterment. Thus, maintaining the focus on reform, cooperation, innovation and production is both a matter of grave urgency and long-term strategic priority.

The South East European countries have been very diverse over the past decade and this has been reflected in their economic growth rates. The so-called latecomers – following the example of those countries that experienced economic growth and foreign investment earlier – need to strengthen their competitiveness

through a system which is much more oriented towards an enhanced climate for business requirements. If there are grounds for foreign capital inflows to be released by the last round of privatisation, the region calls for much greater efforts designed for constructive end results. The underlying purpose remains that of becoming aware of the EU factor, greater regional co-operation in the advancement of industry clusters, and various incentives – all these factors being of equal worth to foreign investors.

Progressive and innovative pro-business oriented policies in the South East Europe region should be designed to produce an economic environment which can respond successfully to rapid changes in an ultra-competitive business situation both regionally and internationally. To that end, and in keeping with the evolving European and international conditions, industrial policies must be structured in such a way as to provide the highest degree of flexibility and responsiveness for entrepreneurs.

This setting, of necessity, encompasses many important aspects, while industrial policy is included in the stability and attractiveness requirements for becoming a region of economic success, making the most of the very interesting geographical position it enjoys and constructing a productive platform for goods and services to be exported to west and to east.

Even if signs of normalare clearly discernible in the economy of the South East European region as a whole, this cannot be said of the labour market. Active labour market policies, such as vocational training and



educational programmes for workers, are needed. If policy reforms were essential to restore competitiveness, boost job creation and make it more inclusive, this would impose a burden of wide-ranging social consequences. Extensive consultations between the social partners are crucial to maintaining social cohesion while restoring overall competitiveness and engineering a successful and lasting economic recovery.

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## **CLARD Centre for Legal Aid and Regional Development in Kosovo**

The Centre for Legal Aid and Regional Development - CLARD - was established in 2007. Its mission is to contribute to the promotion and protection of human rights, with a particular view to facilitating vulnerable individual's better access to justice, to establishing the rule of law and to fostering the social and economic inclusion of marginalised groups of the population. Activities under the legal programme cover several issues.

CLARD provides free legal aid, principally to vulnerable Kosovans, including those outside Kosovo's borders. This service covers civil, administrative and criminal law, notably advice and action concerning employment, anti-discrimination, property, family rights, domestic violence, criminal justice and minority rights issues. In addition to the main office in Pristina, CLARD also have mobile teams identifying cases in the field. These mobile teams focus on municipalities whose citizens are unable to access their rights for different reasons. Over the years, the location of legal clinics has changed according to needs.

The majority of cases are mainly related to the fields of anti-discrimination law, property rights, labour law and criminal law.

CLARD also organises awareness raising campaigns, centred on the education of citizens in the field of law, and the promotion of human rights laws, as well as international standards.

Through its legal advice and free representation in court, CLARD has contributed to the empowerment of thousands of vulnerable people throughout the years, who have regained their trust in the judicial system and in social cohesion.



# Macedonia from association and stabilisation to the opening of accession negotiations

## **Mare Anceva**

General Secretary, Trade Union of Industry, Energy and Mining of Macedonia (SIER)

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### ■ Introduction

The fall of communism and the change of socio-economic system that followed was welcomed with enthusiasm by most Macedonian citizens who believed their lives would improve, as was the case with all post-communist countries. Those expectations were based not only upon a belief that there would be progress in exercising personal and political rights and freedoms, but more importantly, upon the conviction that this process would lead the country out of economic crisis, while living standards would quickly approach those in the west. The reality was somewhat different and cruel.



In 2001, ten years after gaining independence from former Yugoslavia, Macedonia signed the Association and Stabilisation Treaty and started seriously on the process of rapprochement to the EU. In 2005 Macedonia obtained candidate country status, which confirmed that it was doing a good job and was on the right track. The country went deep into the process of harmonisation and prepared for negotiations for full accession. The positive changes were/are noticeable, and sometimes visible. The great majority of the population support accession, even now after the process has virtually stalled due to the so far irresolvable name issue. However, the lengthy transition and accession processes are taking their toll. In 2007, for instance, some surveys showed that 70% of the population considered their lives had been better under socialism.

Has the accession process and all the efforts to meet the required standards brought any positive dynamism to the social dimension of life? This is an open-ended question, and the answer is neither simple, nor easy. Some things have changed for the better, particularly with the harmonisation of legislation, but some are stagnating, or deteriorating because of inadequate and insufficient economic growth.

This paper aims to shed some light on the current situation and social conditions. It gives the basic economic indicators - sometimes the figures speak for themselves. It presents some characteristic provisions in social insurance legislation, basic information about the fiscal system, along with an insight into the situation regarding social dialogue and the collective bargaining

system. In addition to official and academic sources, some internal information and data from trade unions are used, to give the paper a sense of the situation from the workers' view.

When Macedonian citizens voted for their country's independence in the 8 September 1991 referendum, they also voted for political and economic change, since there was already a democratically elected multiparty parliament and government. There was great enthusiasm about the new political and economic system and an almost childish naive trust that privatisation would quickly bring faster economic growth, prosperity, higher earnings and a better life.

The Law on Privatisation of Socially Owned Capital was approved unanimously in 1993. The chosen model was paid privatisation with concessions for employees according to their years of service. The process was conducted in several phases, because there was virtually no interest in investing in non-restructured companies. The process of restructuring of big companies (so called loss-makers) was therefore conducted in three phases, of which the first two were under the surveillance and financial support of the IMF and the World Bank, while the third phase has not been completed yet. The result, in short, was that around two hundred thousand jobs were lost, industrial production in 2002 had fallen to 45.6% of 1986 levels, and there was a wave of speculative investment from countries known as tax paradises.

Unemployment rose to nearly 40%, while GDP showed insignificant growth of just 1.2% for the first

time in 1996. In the preceding years, the figures were negative. Poverty also increased.

The fact that Macedonia was the only part of the Yugoslav federation that accomplished the secession without military action did not contribute to a better economic situation, because of the wars in the region (Croatia, Bosnia). The main issue, however, was the breakdown of the common market and currency, together with border blockades, and interruptions in the flow of goods and payments, which affected all concerned, whether they were at war or not.

From 1992 to 1995, Macedonia was completely under blockade: the northern border was blocked by a UN resolution on Serbia, while Greece unilaterally established a blockade of the southern border because of the so-called name issue. Since the east-west corridor was underdeveloped and much more expensive, Macedonia's fragile economy was brought to its knees. GDP rose for the first time in 1996, after the temporary treaty was signed with Greece in October 1995.

As if all those problems were not enough, in 2001, as soon as the economy started to revive (GDP rose by 4.3% in 1999 and 4.5% in 2000), national conflict emerged and the country came to the brink of civil war. Arguably the Stabilisation and Association Agreement that entered into force in April 2001 helped prevent that from happening.

However, in spite of all the problems and difficulties, all the political disputes and economic inefficiency, one thing has never been in doubt: Macedonia has to be

part of the European family. The supporters of this idea are still in the vast majority in the country to this day.

## ■ Steps towards European integration

Macedonia declared a strategic interest in becoming a member of the EU immediately after declaring independence and started paving the way towards integration. The Arbitration Committee was formed (headed by the president of the French Constitutional Court at that time, Mr. Robert Badinter) which acknowledged that Macedonia had fulfilled all the criteria for international recognition (better than other former Yugoslav republics). Full diplomatic relations between the young democracy and the EU were established in December 1995, while in June 1997 the Cooperation Agreement between the Republic of Macedonia and the European Communities was signed, followed by the Transport Agreement and the Textile Agreement, and the European Union opened the representative office of the European Commission in the country.

The political dialogue started in 1998 and the Stabilisation and Association Agreement was signed in April 2001. Formal application for membership was submitted in Dublin in March 2004 and in December 2005 the European Council awarded Macedonia candidate country status. Since 2009 all annual progress reports were accepted with the recommendation to start negotiations, which makes this year's recommendation the fifth in succession. Owing to a temporary inability to open the negotiation process (due to the so called name

issue and opposition mainly by Greece) in 2012 a High Level Accession Dialogue (HLAD) was launched as an intermediate step which allows the parties to work more concretely on particular negotiating chapters while the bilateral problems were being resolved.

To accelerate economic growth, Macedonia was made a beneficiary of the Phare programme from 1996, the CARDS programme has been available to it since 2000, while the IPA funds and the instruments for pre-accession assistance have been available since 2007. Macedonia currently participates in the following EU Programmes: Seventh Research Framework Programme; Progress; the Competitiveness and Innovation Programme; Culture; Europe for Citizens; Fiscalis 2013; Customs 2013 and Intelligent Energy Europe Programme.

### ■ Some basic economic indicators

Before tackling the social dimension of the reforms, we shall look at some basic economic indicators, which illustrate the situation in the country and the existing economic base. It is worth mentioning that there is sustainable macroeconomic stability in the period under review despite the background of a continuously challenging external environment and high unemployment. In the following table, figures are given for the last decade.

Table 1. Basic economic indicators

GDP growth rates	-4.5	0.9	4.6	5.0	6.1	5.0	-0.9	1.8	2.8	-0.2
GDP in million €	3,839	4,001	4,442	5,231	5,965	6,720	6,703	7,057	7,473	7,454
GDP per capita €	1,887	1,981	2,185	2,564	2,919	3,283	3,269	3,434	3,630	3,616
Inflation rate	5.5	1.8	-0.4	3.2	2.3	8.3	-0.8	1.6	3.9	3.3
Exports mil€	/	/	1,345	1,914	2,472	2,693	1,933	2,493	3,179	3,093
FDI % of GDP	13.0	2.8	5.9	6.5	8.6	6.0	2.1	2.3	4.5	1.4
Ø gross wage €*	288.8	308.8	338.8	375.8	392.5	426.5	486.5	491.5	497.6	498.7
Unemployment rate	30.5	31.9	37.2	36.0	34.9	33.8	32.2	32.0	31.3	31.0

Note: \* Approximate value

Source: National Bank of Macedonia: Statistics, State Statistical Office.

The GDP growth rate fluctuates. After declining in 2001, when the country was involved in internal armed conflicts, good recovery followed with stable growth between 2004 and 2008. The global economic crisis affected the economy seriously and the extent of its impact is shown in the growth rates from 2009 on.

The table also shows GDP and GDP per capita. According to the statistics, average per capita income in purchasing power standards is at 35% of the level in the EU-27.

The national currency, the Denar, is stable, pegged to the euro, and the exchange rate is approximately 61.5 denars for 1 euro.

Foreign direct investment is the weakest point, far below expectations, despite all the efforts and campaigns to attract FDI. Compared to the countries in the region, Macedonia has received much lower amounts of FDI. In 2012 the inflow of FDI declined by about two thirds to 1.4% of GDP. The reasons, among others, are the stalled and delayed processes of Euro-Atlantic integration.

At the same time, Macedonia's main trading partners are European countries. Most of the country's exports (80% and over) go to and most of its imports come from our continent.

### **The social security system**

Under the terms of its Constitution, Macedonia is a welfare state. The government is responsible for providing social security for its citizens, through competent and responsible economic, and primarily fiscal, policies. The social security system includes

most importantly pensions, disability, health and unemployment insurance, welfare, special care for children. Social security covers: employees who pay social contributions and their children while in education (up to the age of 26); retired persons; unemployed persons if they are actively seeking work. Generally, only people without an established civil status would be out of the system. As the economic system was reformed, so were the pension, health and unemployment insurance systems, as well as the whole system of taxation.

### **Fiscal (tax) system**

■ The fiscal system was adjusted according to contemporary requirements and in the framework of harmonisation with EU standards. The system relies mainly upon taxes and contributions. In 2012, 55.5% of the state budget came from taxes (including personal tax), while 29.5% came from contributions. Macedonia can be considered as a moderate tax area, with 29% of GDP generated from fiscal revenue, with tax revenue accounting for 16% of GDP, and social contributions 8.6%.

In general, tax revenues come from taxes on consumption (mainly VAT and excise duties), taxes on labour (personal tax and contributions) and taxes on capital (income taxes).

VAT was introduced in 2001. The general rate is 18%, while the privileged rate of 5% is applied for only a few basic products and services.

The main characteristic of labour and capital taxes is that a flat rate applies. The personal tax rate is 10%,



applied to each and every personal income. There are no other criteria (for example regarding marital status, number of supported persons, level of income) other than the monetary one. The annual amount is based on four average monthly wages in the country, applicable to all taxpayers equally. The same applies to the tax on capital, where there is also a flat rate of 10% and most exonerations are applicable to foreign capital investments. Re-invested profit, for example is not taxable at all.

Flat rates were introduced in 2008, as part of the active policies for attracting foreign direct investment. Before that, there were three scales of taxation, putting higher burdens on higher incomes, of course. Social contribution rates were reduced gradually, with the aim of reducing labour costs as part of the policy offensive directed at foreign investors. The rates of personal tax and contributions varied over a 15-year period as shown in the following table:

Year	Personal Tax	Pension insurance	Health insurance	Unemployment insurance	Total contributions
2000	23/27/35%	20%	9.1%	1.5%	30.6%
2005	15/18/24%	21.2%	9.7%	1.6%	32.5%
2008	10%	21.2%	9.7%	1.6%	32.5%
2009	10%	19%	8.0%	1.4%	28.4%
2010	10%	18%	7.8%	1.2%	27%
2015	10%	17.5%	7.8%	1.1%	26.4%

Source: National legislation.

The implicit tax rate on labour, as a ratio of the sum of tax and contributions compared to the total compensation for employees at the average salary level, is currently 31.9%. It differs for different salary levels, although the rates and exonerations are the same, because of the legal requirements for a minimum payment of contributions.

The Macedonian social insurance system is characterised by a minimum and maximum threshold for social contributions. The insurance rates have to be calculated and paid at a minimum level of 50% of the average salary in the country. At the same time, the minimum wage is set at 39.6% of the average salary. In practice this means that a person earning the minimum salary or below that threshold (and according to the statistics that accounts for over 20% of employees) has to pay more contributions. In effect it means that the implicit tax rate on labour for those on lower salaries is higher, and for the minimum salary it is 34.4%.

According to the Law on Contributions for Mandatory Social Insurance, which regulates this matter, the maximum salary for which contributions are paid is six-fold the amount of the average salary in the country. Salary above this threshold is taxed as personal tax. This means that the implicit tax rate on labour for those earning the maximum salary subject to contributions is 33.9%, or less than those on the minimum salary.

Since 2009 there has been an integral system of salary payment. All legal entities calculate the salaries for their employees using special software directly connected to the Revenue Service. The Revenue Service

issues an integral payment order which is submitted to the bank for payment of all contributions, personal tax and net amounts simultaneously. The integral system of salary payment is designed to control the level of contributions and tax paid from salaries, because there were a lot of cases of abuse and contributions paid on lower amounts than the actual salary. Some employers even calculated equal salaries (most often the minimum) for all employees, and paid the difference in cash. In most cases, the employee wasn't even aware of the situation. There were cases of payment of only the net salaries for longer periods, and the companies owed huge debts to the social funds. Since the new system has been introduced, these manipulations have been eliminated. Now, according to the Law on Contributions for Mandatory Social Insurance, social contributions are paid solely by the employees (the employer does not participate) and the employer is responsible for calculating and paying the salary and contributions. Furthermore, an employee may be penalised if the Revenue Service is not notified that the employer has not paid the contributions on his/her behalf.

This model has improved discipline and the transparency of employees' salaries. However, it has not contributed to raising awareness that a good part of personal revenues are paid to public funds. Unfortunately, the majority of the population only understand salaries in terms of net salary. A perception of tax and contributions as part of personal revenue is almost nonexistent; hence there is little or no interest in control over the use of public money.

## ■ Pension and disability insurance

Pension reform started in 2000. Until then, years of service were the only precondition for getting a full pension: 40 for men and 35 for women, regardless of age. The law on pension and disability insurance was last amended in 2012.

Now the retirement age is generally 65, however men get a full pension at 64 years of age and 40 years of service and women at 62 years of age and 35 years of service. This means that a person cannot retire before the required minimum age, while the amount of pension depends on the years of service (if less, then the amount is reduced accordingly). A minimum of 15 years of service is required for pension.

The system relies upon three pillars: mandatory pension insurance based on solidarity between generations (state fund, first pillar), mandatory capital-financed pension insurance (private fund, second pillar) and voluntary capital-financed pension insurance (private fund, third pillar). The second pillar has been obligatory since 2003, while the last one has been in operation for less than two years now. The contribution rate is 18% of the gross wage, out of which 12% goes to the state fund, and 6% to the mandatory private fund.

There are some occupations for which an additional contribution is paid, because of the nature of the job (e.g. miners, ballet dancers, wind instrument players, other jobs in heavy industries with health risks that cannot be eliminated with protective measures). This practice has been carried over from the previous system.

Those workers can retire earlier, depending on their category and years of service in the job. The maximum possible reduction in the retirement age is 11 years.

The Law on Pension and Insurance in Case of Disability regulates family and disability pension rights.

The number of retired persons is 289,212, giving a ratio of pensioners to insured employees of 1:1.8, which is unsustainable. The State Pension Fund (from which pensions are paid; the private funds still don't have to pay) is in deficit by about 30%, which is covered by the state budget.

## ■ Health insurance

The health insurance rate is 8% of the gross wage. The health insurance system is based on solidarity, but in practice it works only for those beneficiaries who pay their contributions regularly (meaning they get their salaries regularly). Delays in paying salaries are usually caused by problems on the employer's side (which is not unusual), but it is the workers who pay the price: in their moment of need they can't get free health services. According to statistics, 3-4% of employees do not get their wages on time, hence they have problems with their health security. There has only been an electronic record of insurance payments (and an electronic health insurance card) since 2013. Before that insurance payments were certified through a system of special coupons, issued by the authorities for each employee after proof of payment of their contributions was submitted.

Citizens are guaranteed free primary healthcare, as well as secondary and tertiary health care with some participation in the cost of the service. Blood donors and patients with cancer get full care free of charge.

Sick-leave is paid by the employer for the first 30 days, and after that by the Fund. Maternity leave is 9 months, and is paid by the Fund, and the mother can take an optional additional 3 months unpaid leave. A minimum of 6 months of contributions must have been paid to be eligible for allowances from the Fund.

The health system has been in constant reform for years. The Health Insurance Fund's budget is 4.5% of GDP. However, the services that can be provided in the state health system are not to the satisfaction of and do not meet the needs of those insured. Many private medical institutions have been opened, although only a small number of patients can afford their services. The insurance covers the cost of treatment in a private institution only if the treatment cannot be provided by the state institutions. Public-private partnerships have been formed just recently.

## ■ Unemployment

Unemployment insurance is also compulsory. The rate is 1.2% of the gross wage.

In the event of unemployment, depending on their years of service, an unemployed person is entitled to a maximum of 12 months unemployment benefit unless he/she is 18 months off the regular retirement age. In that case they are entitled to unemployment

benefit until retirement, or new employment (which almost never happens). The Law on Employment and Insurance in Case of Unemployment was amended in January 2012.

Before the last amendments, unemployment benefit was guaranteed for a maximum of 5 years before retirement age. This meant better social protection, particularly because senior workers are more often made redundant and replaced by younger people. In a way, this was used as a form of early retirement, because there was no other option for this. However, the government abandoned this solution in the period of global crisis, affecting mostly industrial and construction workers who are not always able to remain productive up until retirement age, particularly due to the poor working conditions they operate in.

### ■ Social welfare

Social welfare is available for people in need, according to the number of family members. However, the amount granted can be estimated as only symbolic, while the conditions for receiving welfare are constantly narrowing.

### ■ Social dialogue

Social dialogue has been gaining importance over the period of transition and in particular during the process of approximation and harmonisation with EU regulations. However, it is still underdeveloped and the

social partners still need to develop their skills in this area. Dialogue takes place on a tripartite and bipartite basis, and at the national, sectoral or regional level. Governments (regardless of their political background) have not done enough to encourage the development of social dialogue so far, and in general the social partners do not make use of the advantages of dialogue. It works as some kind of good practice inherited from the previous system of socialist co-determination, which was specific to former Yugoslavia. This political background may have been an obstacle to the development of social dialogue, because during transition even good practices were neglected or abandoned for ideological reasons.

### ■ Tripartite social dialogue

The system of tripartite social dialogue is administered through the Economic and Social Council - ESC, which is a consultative body, established on the basis of an Agreement and composed of representatives of the social partners. The current ESC was established in September 2010 and now consists of 4 representatives of each social partner: the trade unions with two representatives each from the two representative national confederations SSM and KSS), the ORM (the only representative employers' association) and the government (Ministries of Labour, Economy, Finance and the vice-Prime Minister). According to the Agreement the ESC is chaired by the Minister of Labour.

Tripartite social dialogue has not produced any results in the past. The ESC existed only pro-forma. It seems to



have been given a chance to do something tangible following the last Agreement of September 2010. The ESC has met regularly over the last three years and has shown that the three social partners can develop a dialogue and reach mutually acceptable solutions. However, there have been changes in labour and social legislation or other issues that should fall within the scope of the ESC which have not been discussed. This is clear, given that the Agreement contains the issues for which consideration by the ESC is obligatory. The weakness lies perhaps in the privileged position of the Minister of Labour who chairs and manages the work of the council, and hence decides what issues are on the agenda. This is particularly the case when the government pursues amendments to labour or social legislation in a shortened procedure. In such cases amendments tend to be sent directly to the Parliament for approval, bypassing the ESC.

Tripartite dialogue on the local level has been encouraged by all three partners lately, and a few local tripartite councils have been established during this year.

In general, the process of building the institution of tripartite social dialogue has been slow, but it has been put in place. Considering that dialogue itself is perhaps the weakest point of this government (governing for a full seven years now), it is by default a success that tripartite social dialogue has been established.

## ■ Bipartite dialogue – collective bargaining system

The collective bargaining system designed before the break-up of the former Yugoslavia and contained in the last federal labour act was continued. It was included in every labour law introduced since then (1994 and 2005).

The existing Law on Labour Relations stipulates three levels of collective bargaining: national (for the private and public sector, respectively), sectoral (branch) and single (for a single employer). The national collective agreements are signed by representative confederations of unions and employers associations (for the private sector) and by representative confederations of unions and the Minister of Labour (for the public sector). The sectoral (branch) collective agreements are signed by the appropriate representative unions and the employers' organisations. The single collective agreements are signed between the (representative) union organisation in the company and the employer.

By law, the general agreements have been mandatory since 2011 and apply directly to all employers, both in the private and public sector, while the sectoral agreements are mandatory only for the employer-members of the association that signs the agreement. Since the general agreements became compulsory, coverage of employees by collective agreement appears to be 100%. The general agreement is an act in which minimum standards and requirements are stipulated. At the moment, in Macedonia, a General Collective Agreement for the private sector is in force signed by the

representative trade union confederation in the private sector – SSM and the representative organisation of employers - ORM.

This is an interesting situation, particularly because of the government's long-standing indifference towards the demands of the trade unions to codify the compulsory nature of the collective agreements. The simplest explanation would be that the tax authorities needed some minimum standards applicable to all citizens as a threshold for the taxation process, for which the stipulations of the General Collective Agreement are accepted.

In spite of all this, the culture of bipartite dialogue is still underdeveloped; the unions have to put a lot of effort into bringing the employers to the negotiating table, while the employers are reluctant to organise.

### ■ Information, consultation and participation

The Law on Labour Relations, which regulates this matter, was introduced in 2005 and has been amended thirteen times since then. (Each time the amendments further reduced workers' rights.)

In spite of all the good experience gained through the harmonisation of legislation with the *acquis*, Macedonia remains a country where there is no specific form of workers' participation in the decision making process. The Law on European Works Councils was enacted in 2012, but there is no legislation providing for a form of workers' participation in companies operating at home.

Unions provide structures in the companies where the workers are organised. Those structures, with a greater or lesser degree of success, take on the role of representation and the advocacy of workers' interests and directly take part in the process of information, consultation and negotiation. However, without legal grounds the possibility for participation is very limited. On the other hand, the companies (particularly small ones) where workers are not organised do not practice information and consultation at all.

The possibilities for taking part in European Works Councils are also scarce, because the number of companies with an established EWC operating in Macedonia is very few.

As mentioned above, there are two representative national trade union centres in the country: the Federation of Trade Unions of Macedonia (SSM), representing workers in both the private and public sectors and the Confederation of Free Trade Unions (KSS), which is representative in the public sector. The density of membership is declining and has fallen below 30% (different in different sectors) while in the 90's it was over 60%. There is one representative employers' organisation: the Organisation of Employers of Macedonia (ORM).

## ■ Conclusions

The process of rapprochement with the EU is taking place alongside a process of transition in society in general. This process appears to be very complex and,

in the case of Macedonia, long lasting, since the social fabric has not completely recovered, or, as many say, the transition is not over yet. However, the EC has recommended opening accession negotiations in 2009 and has repeating this recommendation every year. The 2013 Progress Report considers that Macedonia has sufficiently met required standards and criteria for becoming a member of the EU.

When reviewing progress and evaluating the situation, comparisons are inevitable. The government's attitude is to compare with less successful examples, in which case their own achievements looks better. Ordinary people compare the current situation with past times, when living was much easier, from which perspective it looks as if there are no notable achievements. However, one must be realistic.

The fact is that the social dimension of life has deteriorated. The main reason for that lies in high unemployment, which is reflected in low GDP, smaller contributions to social funds, lower consumption, a higher poverty rate, and so on. However, those are consequences of economic transition that have affected all post-socialist countries. Although it is difficult to draw a line between the economic and social issues, we shall focus primarily on social issues.

Reforms in the social sphere are part of the whole process of approximation to EU standards. The harmonisation of legislation with the *acquis* has certainly given a positive impulse to this process. Compared to some other EU Member States (Bulgaria, Romania, Croatia) or candidate-countries (Serbia,

Montenegro, Turkey) Macedonian social legislation can be considered satisfactory, and in some provisions even advanced (giving it more positive dynamism). However, when evaluated from the point of view of Macedonian citizens, who expect more and better from the social situation, a few serious deficiencies can be listed:

- Enforcement of adopted legislation (and the rule of law in general). Even the best legislation is worthless if it is not put into practice accordingly.
- Numerous and frequent changes in the legislation, which causes legal uncertainty. It is not rare that changes are justified in the name of the harmonisation process, even though it is not the case. Then, after a while, new changes are proposed.
- The lack of transparency in the whole process, without consulting experts or the public in general. This, combined with the generally low level of knowledge regarding EU regulations and EU institutions in general sometimes causes doubts in the public mind as to whether some steps are justified and necessary or not.

On the other hand, some models have been pursued with the expectation of contributing to higher foreign direct investments and higher employment (flat tax rates; higher flexibility in hiring/dismissing workers etc). After eight years the ends have not justified the means. Therefore, perhaps it is time to reconsider whether the flat tax rates worsen the social fairness of income distribution and broaden the gap between the richer and poorer. At the same time, there are no grounds for flexicurity in Macedonia so far, due to the non-functional labour

market and the very low supply of jobs. Amendments to labour legislation that make dismissal and redundancy procedures easier increase uncertainty, put the workers in a subservient position and threaten freedom of association. In order to noticeably improve the social dimension of living, priority should be given to:

- Higher employment, particularly in the productive sector while at the same time dealing with the oversized public administration that eats a large portion of public money.
- A review of the taxation system and the development of a socially more equitable taxation model that would enable higher tax revenues, but with a more equitable distribution of the tax burden.
- Encouraging social dialogue, empowering the social partners and developing the institutions and skills of dialogue.
- A more rapid development of civil society in general, civil society institutions, and civil dialogue.

Nevertheless, the general conclusion would be that the process of approximation to the EU has contributed positively to the social dimension. This particularly relates to the necessary process of harmonisation of the legislation and pursuing the Lisbon and Copenhagen criteria. In short it would probably have been worse if Macedonia was not in the process of association to the EU. That's why public support for EU integration is still very high, in spite of the feeling of injustice over the name issue dispute and the delays in the process.

Through the process of association and stabilisation a solid basis is being established in Macedonia. It will

take a lot of work and time however to achieve the desired goals. We may see a more positive impetus once the negotiations start, because then real work in each particular negotiating chapter will be required along with concrete results.



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# Gender acquis in EU enlargement countries: Labour and social policy implications. The case of Croatia, Bosnia and Herzegovina, Macedonia (TFYR), Montenegro, Serbia and Slovenia

**Dasa Šašić Šilović**

Chair, International Board, CEE Network for Gender Issues

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## ■ Transition backdrop

The social model developed since the Second World War in Europe brought economic and social progress and political stability that resulted in integration and enlargement. The welfare state based on universal health coverage is the reason why women in Europe can have safe births, can plan parenthood with their partners, can take care of their sick children, can use reliable childcare

services in crèches and kindergartens, educate themselves and advance their professional lives. Equal opportunities in education changed the way Europeans think, live, work and plan for the future. Today this paradigm and social model is in crisis. Economic circumstances and the neo-liberal economic model have weakened the welfare state resulting in high unemployment rates, rising inequality, poverty and social exclusion.

From 1990, countries in Central and Eastern Europe went through a drastic political democratic and economic transition. This often entailed experimentation with economic liberalisation, rapid and unbridled privatisation, corruption, and the curtailing or dismantling of social policies, resulting in unpredictable social consequences. The transition, moreover, was not only structural and institutional, but also social, cultural, mental and behavioural. The negative effects of transition also impacted male mortality rates, with an average difference in life expectancy of 7-5 years less than women.

In 1995 the CEE Gender Network, with the support of the European Forum for Democracy and Solidarity, argued for integrating the gender equality indicator into cooperation between the EU and countries in the region in anticipation of possible future accession. The argument was that it is better to “strike while the iron is hot” and that gender equality, if not addressed, would be lost not just in translation but in transition.

During this period governments and women’s networks in South Eastern Europe were supported by international institutions – the UN and EU policies

and directives providing a favourable political basis for advocacy and affirmative action. This support has also contributed to the establishment of government institutional mechanisms for gender equality and resulted in the inclusion of gender equality in the EU accession negotiations.

While the transition was evolving against the backdrop of the rapid development of open democratic societies, IT revolution and global, it was also characterised in the region by negative demographic trends such as low birth rates, an ageing population, rising unemployment, job insecurity and increasing social strife. In the Balkans it was even more traumatic with the wars of the nineties, leaving in their wake uprooted, displaced and impoverished populations. Women suffered the greatest hardships, and many were raped and violated.

“Women in the CEE have been disproportionately affected by the neo-liberal transition and reforms and recently by the financial and economic crisis. Market fundamentalism which was embedded in the transition blueprint and in the follow-up neo-liberal reforms including pension reforms, tax reforms, social security reforms, labour reforms, etc. have proved to have more negative consequences on women than men. Our society is in a significant crisis of solidarity. Neo-liberalism ignores inequalities generated by the market including gender inequalities, it ignores growth of poverty, unemployment or exploitation. In most cases women are more often victims of it than men.” (Schmognerova, 2012).

Since women predominantly worked in the public sector, all reductions in public administration and social services, either as a consequence of economic transition policies or the economic crisis, had a strong impact on women's employment patterns. Diminishing family budgets and rising unemployment among women also led to their return to traditional roles in the family and to the care economy.

Europe's progress towards eliminating its gender gap is also uneven and polarised, with countries from Northern and Western Europe presenting a stark contrast to those from the South and East. Spain comes in 30th, having closed 72% of its gender gap, France ranks 45th (70% closed) while Italy ranks 71st. In Europe overall, as a consequence of the economic crisis, fiscal consolidation measures in 19 countries<sup>1</sup> resulted in, on the expenditure side:

- Wage freezes or wage cuts in the public sector (11 countries);
- Staffing freezes or personnel cuts in the public sector (9 countries);
- Pension reforms: postponing retirement and/or bringing the age of retirement for women in line with that for men (8 countries);
- Cuts and restrictions in care related benefits/allowances/facilities (8 countries);
- Reduction of housing benefits or family benefits (6 countries);

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<sup>1</sup> These countries are the following: AT, BG, CZ, DE, EL, FR, FYROM, HU, IE, IS, LI, LV, NL, MT, PL, PT, RO, SE, UK

- Tightening of eligibility criteria for unemployment and assistance benefits or reductions in replacement rates (5 countries);  
and on the revenue side:
- Tax measures (6 countries);
- VAT increases (5 countries);
- Increases in fees for publicly subsidised services (health care fee transport fees, others) (2 countries).

### ■ EU Accession Process in the Region and Gender Equality

The EP Resolution (2013) on the situation of women in the Balkans, adopted in 2008 (rapporteur MEP Zita Gurmai), formulated, among other issues, the following opinion: *“Considers that the continuation of political and economic stabilisation and the creation of democratic institutions in the countries of the Balkans requires the active participation of women (given that they comprise just over half of the population)”*; *“Notes with anxiety that gender equality laws and practices (institutional, financial, human) are not fully guaranteed although there is a difference between countries which have started accession negotiations and those which have not.”*

Today, gender equality is integrated into accession negotiations with Bosnia and Herzegovina, Macedonia (TFYR), Montenegro and Serbia, while Hungary, Slovenia and Croatia have already been through this process and can offer some lessons.

EU accession in terms of gender equality means adopting and enforcing the gender equality *acquis* across

the three main accession pillars: political, economic and those enshrined in the *acquis communautaires*. It also underscores the need to eliminate discrimination based on gender and apply gender policies in all employment and social policies, including measures to balance professional and family life and ensure equal pay. This approach actually spans the three pillars as it ensures political representation and the *acquis* relating to human rights, while through the economic criteria it addresses equality in labour laws (non-discrimination in employment, equal pay, accompanying social measures).

The EU Roadmap for Equality 2010-2015 states the obligation of candidate countries to promote gender equality. In accession negotiations emphasis is put on the government's responsibility to promote gender equality, including the availability of necessary institutional support and resources (financial and personnel) and the mainstreaming of gender concerns throughout government commitments. These matters are taken up in Chapter 19 on social policy and employment; Chapter 23 on judiciary and fundamental rights and Chapter 24 on justice, freedom and security. Furthermore, the EU can at any time express non-binding options and recommendations during the integration process.

At national level, Member States are, among others, required to:

- Implement the national roadmap towards a greater choice of flexible time arrangements, as agreed with the European Council, to reduce the segmentation of the labour market and facilitate the achievement of a balance between work and (family) life;

- Promote new forms of equilibrium, including “home-work” and active aging policies, and gender equality;
- Promote and monitor the implementation of social dialogue and its effects.

Countries in the region are actually confronted by a dual burden: i. the need to address the labour and social gaps caused by the transition and the current recession; ii. the need to meet the *acquis* which can imply further budget and social cuts and unpopular reforms.

Bosnia and Herzegovina, Macedonia (TFYR), Montenegro and Serbia therefore are requested to align with the EU membership criteria, strengthen and develop legal and institutional frameworks to meet the (gender) *acquis*, adopt administrative structures and measures to enforce them but at the same time combat the effects of liberalisation, redress a crippled economy and a crumbling, disintegrating social welfare system.

For 2012 UNDP (HDR 2013) also ranked countries in the region on the Gender Inequality Index as follows: i. with very a high development index Slovenia – 21st and Croatia – 47nd and ii. with a high human development index Bosnia and Herzegovina – 81st, Macedonia (TFYR) – 78th, Montenegro – 52nd, Serbia – 64th.

The analysis of labour policies in the above countries shows a weak causal relationship to social policies, except in addressing vulnerable groups. The causes for this state of affairs can be lack of: government coherence in policy making, of cross-sectoral cooperation and lack of broad societal dialogue. It can also be the result of



the economic prescriptions of the nineties by the IMF and World Bank which primarily focused on economic and financial reforms without delving deeper into social implications such as the human impact of budget cuts in education, health, maternal and child care, unemployment and retirement benefits. An example in the region are the Poverty Reduction Strategy Papers (PRSPs), for instance in Montenegro.

It should be noted that the gender role of men in the region is also rapidly changing. Affected by the economic crisis and unemployment, under the burden of patriarchal perceptions of their masculine breadwinner role they are experiencing frustration and a general crisis of masculinity (Blagojevic-Hughson; 2012). Women, on the other hand, have as a rule shown more flexibility in coping with the volatility of the labour market often becoming breadwinners, while in the older generations it is evident in mortality age disparities. These changes are in turn affecting both social and individual status and relationships.

Nevertheless men remain more economically active than women in the region. Out of the total percentage of the economically active population in Bosnia and Herzegovina, men occupy 68.3% and women 54.9%; in Croatia the figures are 60.3% for men and 46.3% for women; in Serbia 62.8% for men and 45.9% for women; in Slovenia 65.4% for men and 52.8% for women and in Macedonia (TFRY) 55.2% for men and 42.9% for women. In terms of distribution among sectors the percentages are as follows:

	Female	Male
SERVICES		
Bosnia and Herzegovina	44.9	55.1
Croatia	53.2	46.8
Montenegro	49.0	51.0
INDUSTRY		
Croatia	27	73
AGRICULTURE		
Bosnia and Herzegovina	38.5	61.5
Croatia	49.2	50.8

Source: UNECE Statistical database.

Across Europe, on average, women earn 17.5% less than men over their lifetime. Women in countries negotiating EU accession also experience significant pay gaps and discrimination in financial remuneration. While in some cases legislation is neutral on this count too, the law does not generally discriminate. In practice, however, differences vary from 20% to 30%. The reasons are many: men tend to get better paid jobs, women are ready to take lower paid jobs, women tend to work in the traditional female sectors which are less well paid like education, there is vertical discrimination and there is a persistent glass ceiling, for example in access to higher managerial levels and levels of decision-making. UNDP notes that the gender pay gap tends to be wider in the private than in the public sector, by occupation and educational level. The gap is generally wider for people with higher education. It is also partly the result of more women in part-time, undervalued and informal

work. This is related to availability of childcare services and maternity and paternity leave, and sharing of family responsibilities. This disparity reduces the standard of living of women throughout their lives and means lower pensions when they retire. As a result, elderly women in the region are at a higher risk of living in poverty. 22% of women over the age of 65 are at risk of poverty, compared to 16% of men (Source: Eurostat).

Earned income (estimated), ratio of female to male 2009			GDI value as % of HDI value	Gender em- powerment measure (GEM) rank
Country	Ratio of income disparity F/M	HDI ranking		
Slovenia	0.61	29	99.7	34
Croatia	0.67	45	99.7	44
Montenegro	0.58	65	...	84
Serbia	0.59	67	...	42
FYROM	0.49	72	99.4	35
Bosnia and Herzegovina	0.61	76	...	...

Source: UNDP Human Development Report 2009.

Research demonstrates that policies aimed at assisting parents in reconciling work, private and family life may actually stimulate both women's participation in the labour market and fertility, providing an additional channel to reduce the burden of financing a growing number of older people imposed on future generations.

In the EU, family policy expenditure in relation to GDP is on average 0.73%. Of the 18 countries below the EU average, 15 are in either Eastern or Southern Europe. The EU stipulates that *"Parental leave is an important means of reconciling work and family life and promoting equal opportunities and treatment between men and women (preamble). Men and women are assigned an individual, non-transferable right to parental leave on the grounds of the birth or adoption of a child for at least three months, until a given age up to 8 years. After the leave the worker should have the right to return to the same or an equivalent job"* (Directive 96/34/EC, clause 2).

To illustrate the above observations, below are some country examples from the region based on the responses to the questionnaire prepared by the CEE Network in preparation for the Korčula meeting (August 2013). The examples demonstrate loopholes in the achievement of the EU gender acquis.

## ■ Croatia

One of the key priorities for this new EU Member State is increasing the level of employment and labour market participation of prime-age women with low or inadequate education and skills, the long-term unemployed or those inactive in the labour market, women victims of violence and members of ethnic minorities.

Employment councillors in the 22 regional offices of the Croatian Employment Service devote special attention

to providing preparatory and mediation services for persons with reduced employability, including women who are victims of domestic violence. In order to raise the standards and quality of services along with the development of an individualised approach for each specific group of people, particularly groups facing discrimination and social exclusion on several grounds, there was a need to keep records and to develop services for specific groups of people with disabilities because women with disabilities are especially vulnerable on the labour market.

It should be noted that the number of women entrepreneurs has risen in recent years in Croatia and the government is providing group information, individual counselling and workshops in order to encourage women to use active labour market policies (ALMPs). The Croatian government is also implementing the Youth Guarantee that will enable young people up to 29 years of age to receive an offer of employment, continued education, an apprenticeship or a traineeship within a period of six months of becoming unemployed.

Women who acquired a pension insurance period while not working but using maternity and parental leave are offered the possibility of workplace training. Additionally, a new form of work engagement through vouchers for temporary or part-time seasonal jobs in agriculture makes it possible (it is not regulated as an obligation) for women to validate work on the family farm through a recognised work and insurance period. Therefore, by buying and using vouchers, women can be employed as seasonal workers in agriculture up to

90 days within a calendar year and thus strengthen their social security.

In 2013 the Act on the Amendments to the Act on Maternity and Parental Benefits was adopted to, among other things, harmonise the duration of parental leave of an employed and unemployed parent, introduce new solutions, stipulate the transferable and non-transferable parts of parental leave and the requirements for the exercise of the right to parental leave by one parent, and level out the duration of adoption and parental leave for the adoptive parents regardless of the age of an adopted child.

## ■ Bosnia and Herzegovina

The European Partnership agreement for Bosnia and Herzegovina mentions the protection of the rights of women and children as one of the commitments in the field of social and economic rights (2008/211/EC). The latter is also the case with the European Partnership for Serbia and Kosovo. There is civic and political pressure on the government to ensure:

- Family and child protection measures, maternity benefits;
- A new law on rights and benefits arising from pregnancy, delivery and maternity leave;
- Law on child protection;
- Free school books, school meals, child care facilities for children with special needs;
- Resolution of child adoption policy and legal provisions, especially for abandoned children.

However, the implementation among cantons is uneven. For instance, while the Bosnia and Herzegovina Parliament last year adopted maternal and paternal leave agreed by all the parties in Parliament, the law applies only at the state level, while the majority of employees are at the entity or cantonal levels. Maternity leave is not regulated throughout all the cantons where there is a lack of both resources to back up this regulation and other legislation impairing the country's ability to meet the EU gender acquis.

## ■ Montenegro

The Montenegro National Programme for EU Integration defines, *inter alia*, the introduction of gender equality in all areas of the national policy. It calls for the harmonisation of national legislation in sync with EU regulations and standards, the establishment and strengthening, where necessary, of institutional mechanisms for gender equality, cross-ministerial cooperation, strengthened statistical capacities, cooperation with NGOs and training services.

Data show that women in Montenegro are less present in the active population which means that they are less employed than men. Women still take primary responsibility for taking care of the family - children, elderly and sick members, while care social services are lacking. Even though in Montenegrin Labour Law there are provisions on part time jobs and flexible working arrangements this is not used in practice. The full implementation of these provisions

would assist women to be more active in the labour market.

The Labour Law (amendments adopted in 2011) envisages both maternity and paternity leave. Maternity leave may be used by a mother starting 45 days before delivery and paternity leave may be used by a mother or a father for 365 days from the date of child birth. The parent using this right is entitled to retain the same salary and professional status as prior to parental leave. Unfortunately, this right is still not sufficiently used by fathers and challenges remain in terms of overcoming gender stereotypes.

## ■ Serbia

In Serbia women remain the most vulnerable group in the Serbian labour market (the ratio of employed women is significantly lower than that in all 28 EU member states). However, it is interesting to note that there was a rise in women's employment to 43,1% in 2009, most probably as a consequence of the contraction in certain economic fields employing primarily men e.g. construction and industry, in relation to sectors in which women are mostly employed e.g. education, trade/commerce, health.

The Serbian Development Strategy (2011-2020) acknowledges that women remain a vulnerable social category and it speaks to the difficulties of targeting women's employment due to their heterogeneity i.e. the need to prepare new custom tailored employment programmes, especially for marginalised women who



are discriminated at various levels, so that their diverse vulnerabilities are addressed.

Serbia aims to link the quality and dignity of labour and through an optimal use of measures to stimulate and sanction employment, including the respect of international standards and reconciliation of professional and personal obligations, the promotion of active aging and equality between men and women. The Serbian development strategy has a special section dedicated to equality between men and women (2.4.3). The Stabilisation and Association Agreement (SAA) for Serbia also includes social policy, education and training for women, as is the case with Montenegro, Albania and Bosnia and Herzegovina.

Much needs to be done together with social partners to enforce this policy and the legal measures. "Due to de-development, accompanied by a demographic crisis, Serbia is facing a crisis of care, which consists of a chronic lack of financial and human resources to adequately care for those who are in need of care. The crisis of care, when it comes to older generations, is particularly exacerbated due to the process of emigration of younger generations." (Blagojevic-Hughson, 2013).

Regional inequalities within Serbia also exist. For instance, while in Jagodina (central Serbia) compensation for pregnant women on maternity leave is 100% of their salary, the compensation in Novi Sad (capital of the province of Vojvodina) amounts to 65% of their salary. Hence, in their manifesto and call to action, the League of Social Democrats of Vojvodina and its women's organisation demand from the government

that working hours for women are adapted to their responsibilities and needs, that they receive equal pay for equal work, 100% of their salary compensation in pregnancy, safeguarding employment and employment opportunities.

### ■ Macedonia (TFYR)

Similarly, women in Macedonia demand flexibility in working hours and free time for all employees, arguing that Macedonia should respect and implement the highest possible international and EU labour standards. The argument is that flexibility in working hours is in line with technological and scientific developments and would actually increase employment levels.

The new Labour Law, based on European standards, contains many articles that relate to the status of women workers. While the labour market in Macedonia is equally unfavourable for men and women, there are limited opportunities for flexible and part time work for women and there is no law on parental leave. There are no measures to reconcile family and professional life for women. There is also a rising conservative trend advocating women's role as being in the family and the home. Progressive women in Macedonia demand changes and amendments to the legal regulation stipulating gender equality and its harmonisation with European legislation, including among others:

- Revision of the labour law from the perspective of the protection of women workers' rights including the inclusion of parental leave in domestic law;

- Establishment of new employment policies, to conform with the labour market and its specificities to the benefit of women;
- Establishment of special employment policies for vulnerable women who have difficulties in finding employment (women who have not found employment for a long period of time, women over 55 years of age, young women, women with special needs, women with low levels of education);
- Sanctioning employers who discriminate against women due to their family status or desire to establish a family;
- Strengthening the network of family and social support.

The SAA for Macedonia (Article 90 on social cooperation) prescribes the adjustment of legislation concerning working conditions and equal opportunities for women and men and the improvement of the level of protection of the health and safety of workers (Council of the EU, 6726/01). So, why these demands are not fulfilled?

## ■ Slovenia

In Slovenia measures which disproportionately impact on women, among others, relate to:

- Care for a sick family member (decrease from 80% of pay to 70% of pay);
- Child care costs for a second child: parents are now required to cover 30% of costs (previously it was 0%);

- Cancellation of additional food subsidies in schools;
- Decrease in the child allowance for middle class families;
- Decrease in the maternity leave indemnity from 100 to 90% of pay;
- Freezing of wages in the public sector (80% women jobs) till 1 January 2014.

## ■ Conclusions

In the difficult choices that Europe has to make to address the crisis, the hard won human and social rights, especially those of women, should not be lost under the blanket of opportunistic economic solutions agreed behind closed doors by conservative governments of the EU Member States. Conservative solutions to the crisis should not be sold to the people of Europe as ideologically and gender neutral. Europe cannot turn its back on its own civil society acquis, its own social welfare, its egalitarian, solidarity based social model, of course adapted to 21<sup>st</sup> century realities and to a globalised world. Europe also needs to safeguard its gender acquis through smart economic and social policies that would reinforce social justice, gender equality, sexual freedoms and diversity.

In the Central and Eastern European region the stakes are very high too. In the last twenty years the region's population has gone through a number of political, economic and financial crises that have impacted on demographics, individual and family standards of living, employment opportunities for women and men, social

benefits for children, youth opportunities, mothers and families. Women in these circumstances are the most affected.

There are innovative solutions in Europe to reactivate and reinvigorate the political, social and economic machinery like those proposed by the Party of European Socialists. Europe needs progressive alliances, inter-generational, between labour movements, civil society organisations and political parties at all levels, to identify innovative solutions to the crisis and to forge a vision for a revived Europe.

The revitalised European social model, constructed on the lessons of the last sixty years, of this economic crisis and adapted to the new realities, should ensure that an active role is played by governments, based on their capacity to steer the economy, on effective redistribution policies and social protection, on high quality and fully accessible public services, and on comprehensive systems of collective bargaining. Creative approaches are needed to balance work responsibilities and changing personal and family commitments in changing economic and social circumstances, implying state support through employment and family policies.

The way out of the crisis also demands aggressive, sound and sustainable, gender sensitive employment policies. They should be based on European solidarity and wealth stemming from its unity in diversity within common interests, and a joint economic and social vision and model. The aim is to construct a social model that reinforces the basic link and balance between economic efficiency and external competitiveness on

the one hand, and basic rights and social justice on the other.

To achieve this Europe needs the political leadership and political will to forge a new social model and social cohesion around it. This would guarantee that European citizens, and those many sceptics in accession countries, see an interest in contributing to the European whole and becoming European citizens with rights and obligations, challenges, choices and options in a continent of social wellbeing and prosperity.

Finally, the accession process is important in terms of the pressures and the urgent need to create opportunities for the greater integration of women in the labour force, accompanied by corresponding social security and public service infrastructure and measures. The inclusion of gender concerns and mainstreaming, like in the Serbian National Development Strategy, should certainly be one of the steps to be taken by these countries to meet the gender acquis.

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### **SOS Podgorica: supporting victims of domestic violence in Montenegro**

SOS Podgorica (SOS telephone for women and children victims of violence - Podgorica), was established in 1997 and actively works on the prevention and elimination of violence against women and children. Since its establishment the organisation has carried out a series of actions and initiatives that have had a major impact on the development and implementation of policies, laws, action plans and practices in the field of the protection of victims of domestic violence at all levels.

After only a few years SOS Podgorica, in partnership with the “Ksenjia” Centre for Girls, organised the signing of a civic petition and submitted a request to the Parliament of Montenegro for an amendment to the Law on Amnesty, to exclude from amnesty the perpetrators of rape, and of rape and unnatural fornication with juvenile and disabled children. After many actions, performances, and a media campaign, the petition was signed by 15,000 citizens and submitted to the Parliament of Montenegro where the request for an amendment was successfully adopted. Since then, the annual amnesty in Montenegro does not include the perpetrators of these crimes.

It was also thanks to SOS Podgorica that domestic violence becomes a criminal offence for the first time in Montenegro, under article 100a of the Criminal Code. The organisation took the initiative and exerted strong pressure with the support of international organisations that campaign against domestic violence.

In 2004 a Memorandum of Cooperation was signed by the officials of SOS Podgorica, and the justice, police, health and social services of the cities of Podgorica, Bijelo Polje, Bar and Ulcinj setting out clearly defined roles and responsibilities

In 2005, SOS Podgorica contributed to drafting the Law on Protection from Domestic Violence, through organising public hearings, hiring experts, commenting on the draft of the Law and implementing strong national campaigns.

From 2005 to 2006, SOS Podgorica was part of the working group that developed a National Action Plan for Gender Equality in the area of violence and health. The same activity was carried out at the end of 2013, to develop the new government's action plan for 2014-2017. The director of SOS Podgorica is currently a member of a working group for monitoring the implementation of this Strategy.

The "Rulebook for police officers on how to behave in cases of domestic violence" was created on the initiative of SOS Podgorica, in partnership with the police directorate.

SOS Podgorica initiated the inclusion of the subject of domestic violence in the formal training of future police officers, and members of the organisation participated in the process of training students in the police academy.

As members of the working group, we actively participated in 2012 in the drafting of the National Strategy for Protection against Domestic Violence and the Protocol on action, prevention and protection

from domestic violence (Procedures and institutional cooperation regarding family violence and violence against women).

# Form versus practice: Gender policies in Serbia and the influence of European integration

**Dina Rakin**

Researcher and Project Coordinator, European Movement  
in Serbia

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## ■ Introduction

Serbia is faced with the impact of severe economic crisis, together with the legacy of its past conflict and economic deprivation. Against this background, the country also lacks a clear and progressive strategy to include its many disadvantaged groups into society, and primarily into the labour market. Women, the biggest discriminated group and one with a great capacity to contribute to society, are also the least recognised and most frequently discouraged. According to the latest reports, women in Serbia are more educated, but lower paid, and more likely to be unemployed. They are rarely the ones in the decision making positions

in companies or in politics, but they are the ones that carry the burden of balancing their obligations in their private and professional lives. As part of the EU accession process, the Serbian government has introduced numerous laws and by-laws creating better conditions for a greater and more sustainable inclusion of women in the labour market, and thus in society. As a result, new institutions have been established, and existing ones are in the process of reforming. Taking into account the above mentioned reform processes, and further to the analysis of documents and interviews with the representatives of the relevant institutions, the research addresses the problems and challenges of women's position in society, especially regarding their position on the labour market. Recommendations have been drafted for the government, as well as local community officials for the creation of a comprehensive and sustainable system to support the inclusion of women in general and particularly those facing multiple disadvantages. First of all, decision makers need a clear knowledge and understanding of what human capital means for the overall socioeconomic development of the country and society. In this paper, human capital is understood mostly from the development perspective, which is gender sensitive and which takes as its starting point that if policies have no gender perspective they cannot substantially influence the development of society, nor can they tackle and enhance the quality of life all citizens. Therefore, the respect of human rights as a precondition for gender equality is the responsibility of government and its institutions, since the quality

of its measures directly influences the development of society and therefore the improvement of citizens' living standards.

### ■ Human capital from a gender perspective

If a gender perspective is introduced in national and local policies, it means that they will take into account the needs of both men and women with all their differences. This will create conditions for the way human capital is used and for the development of preferences so that, on one hand, the development of those societies should become more sustainable, and on the other hand it should lead to an improvement in the quality of the lives of the citizens in that society. Policies which are not gender sensitive are the ones that cannot tackle development, since they create or support patriarchal patterns of discrimination which are rooted in stereotyped roles of men and women in society. That in turn exacerbates the division of gender roles, creating gender regimes which can greatly increase discrimination against women in society. The most evident results of this process are in the economic sphere. Women are paid less, their job positions are less attractive and mostly they work more, since they work both in the public and private sphere, doing often tasks which are not perceived as work for which they should be remunerated.

Modern societies and states that comply with international standards and laws create legal and institutional frameworks which are gender sensitive,

respecting human rights and creating the conditions whereby all citizens can develop as individuals. It is not just about obeying the rules, however, it is about states and societies which tend to cope with modern challenges. The economic crisis is a global challenge that needs a global approach to tackle it. It requires the involvement of not only state actors, but all international actors, such as international and regional organisations, as well as the private sector and civil societies. That process has been initiated and is on-going. Many other problems, such as new social needs, the emergence of new marginalised groups, and the absence of concrete economic activities, are unique problems for some societies, demanding a tailored approach by governments.

In order to address specific economic and social challenges governments create public policies. One of the most important aspects of those policies is gender perspective, since the sustainability of the proclaimed measures directly depends on how much those policies influence both women and men. This approach has been well known since 1995, when the Beijing Platform for Action was proclaimed and was strongly promoted by all international organisations. From that point, women issues were no longer a matter for women alone but for society overall. Gender perspective in public policies means the inclusion of the interests and qualities of both women and men in planning, creating and making decisions. Those kinds of policies are directed towards making a more democratic and participatory society, one that is both more inclusive and more prosperous.

This is complemented by the approach of equal treatment which focuses on the concrete demands of different marginalised groups. It emphasises the necessity of equal treatment of all people, regardless of their differences, while differences should be treated differently only when it is clearly justified. That stipulation is important in creating gender sensitive policies; both from the aspect of taking into consideration the differences between women and men, and from the aspect of women as a marginalised but highly diversified group.

These two approaches, combined with a women's perspective which is focused on women's empowerment, should lead to the sustainable development of society where all citizens are treated equally and where they can achieve a full sense of themselves as individuals. Measures and institutions derived from this kind of principle are gender sensitive, more inclusive, but as well more prone to adaptation to the concrete demands of the needs of different groups in society. A government which acts on this principle is more democratic, transparent and more respected by its citizens.

### ■ Women in Serbia and gender policies

In the Republic of Serbia the right to the equal participation of women and men in the decision-making processes in public affairs is guaranteed by law and ratified national and international documents on human rights.

Recognising numerous international mechanisms and documents relating to gender equality, the government



of the Republic of Serbia has established a normative framework for gender equality and protection against discrimination based on the Constitution of the Republic of Serbia in (2006). The principle of gender equality is included in the Law on Gender Equality and the Law on Prohibition of Discrimination and in some state strategies. Changes were also made in laws on crime, work and family. In 2009, the National Strategy for Improving the Position of Women and Promotion of Gender Equality (2008-2014) was adopted as well as the Action Plan for Implementation of the Strategy (2010-2015). Its strategic goals are: achieving the right of women to participate equally in decision making, eliminating economic inequality between men and women and introducing an equal opportunities policy and the better util of resources for female development, instituting gender equality and integrating gender perspective in education, preserving and improving female health and achieving gender equality in health policy, preventing and combating all forms of violence against women and securing a comprehensive system for protecting women against violence and instituting gender equality in the media, removing gender stereotypes and eliminating hate speech from the media.<sup>1</sup>

It resulted also in the establishment of the Council for Gender Equality of the Government of the Republic of Serbia, the establishment of specific internal units in the Ministry of Labour and Social Policy - Gender

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<sup>1</sup> National Strategy for the Improvement of the Position Women and Improvement of Gender Equality.

Equality Unit - and the establishment of the Committee for Equality of the National Assembly of the Republic of Serbia. The Commissioner for Protection of Equality has been established with the mandate to prevent all forms and cases of discrimination, to protect the equality of natural persons and legal entities in all spheres of social relations, to monitor the enforcement of antidiscrimination regulations, and to improve the fulfilment and protection of equality. At the local level there are also mechanisms for striving for gender equality. Last year the Women Parliamentarian's Network was established in the National Parliament of the Republic of Serbia, although it has a low level of influence since it is informal and not included in the Parliament's Rules of Procedure.

According to official statistics, women make up 51.4% of the population in Serbia. Of the total number of women, 57.25% live in urban areas and 42.75% in mixed or rural areas. In urban areas 52.2% are women, while in mixed or rural areas they make up 50.33% of the overall population. Men are defined as heads of households in 73% of households, and women in 27%. As for the one-member, one-person households, 63.3% are women and 36.7% men.<sup>2</sup> If we look at the data regarding education, more women enrol in university (55%) and more women graduate (61%) (2009). In 2009, official statistics showed the number of men and women who have PhDs for the first time. It emerged that women account for 44% of all PhDs,

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<sup>2</sup> National Bureau of Statistics, 2010.

masters and specialists among the teachers and staff at universities.<sup>3</sup>

The period from 1990 until 2000 was marked by the wars in the former Yugoslavia and had a particularly negative impact on women. After the sanctions, the transition of the economic system to an integrated market economy began, as the first step towards economic recovery and the potential advancement of women in the economy. The Law on Labour 2005 prescribes equality, equality in terms of employment, elections, working conditions, the right to employment, education, training and development, promotion at work, termination of employment, the prohibition of the harassment and sexual harassment of employees, the employer's responsibility for illegal actions, maternity leave, leave for child care and absence from work due to special child care and special protection from termination of employment (during pregnancy and maternity leave from work).<sup>4</sup>

When it comes to unemployment, according to the Survey on the Status of Women in the Labour Market, the unemployment rate for women is higher than that of men. Women account for 44% of employees and 54.3% of the unemployed. One of the biggest problems facing the Serbian labour market is long term unemployment, which affects women more often than men. 69.5% of unemployed women have been out of work for over a year, while the figure for men

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<sup>3</sup> National Bureau of Statistics (2010).

<sup>4</sup> National Strategy for the Improvement of the Position of Women and Improvement of Gender Equality.

is 65.8%.<sup>5</sup> The most vulnerable families facing insecure employment are single parents and marginal groups, the majority of whom are women. There are also more women than men (14.6% of women comparing to 4.5% men)<sup>6</sup> in the category of unpaid family workers in Serbia. Unpaid family work is highly prevalent amongst women engaged in agriculture in Serbia, i.e. this work is done without pay, outside the sphere of the formal labour market (meaning that women engaged in this work do not have health and pension insurance).

The gender pay gap is 16%. Of persons voluntarily leaving their job for family reasons, 80% are women and women make up 98% of those whose only work is in the household. The share of women-owned registered facilities is 29.7%. On the other hand, women accounted for 30.5% of managerial positions in society and the economy. Only 20.8% of managers and 14.3% of board members are women.<sup>7</sup>

Although official statistics do not show a difference in the percentage of women at risk of poverty, specialised studies and analyses show that in the transition countries the weak economic position of women is the result of the interaction of various factors: general and re-traditionalisation, re-patriarchalisation of society; decline in gross domestic product, a reduction in the protective

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<sup>5</sup> National Bureau of Statistics (2010).

<sup>6</sup> Babović, M., (2010). *Gender economic inequality in comparative perspective: EU and Serbia*. Sociological Association of Serbia and Montenegro. Belgrade: ISIFF i SeConS.

<sup>7</sup> Babović, M., (2010). *Gender economic inequality in comparative perspective: EU and Serbia*. Sociological Association of Serbia and Montenegro. Belgrade: ISIFF i SeConS.

role of the state; budget restrictions that particularly affect women because of reduced spending on health and education; a narrowing of the rights related to maternity leave, child care and pensions; reduction in the employment rate; an increase in the participation of women among the poor population, an increase in the grey economy, which increases exploitation and the discrimination of women; lack of transparency in the process of privatisation, which excludes the majority of women and conflicting roles (family and work), where the burden is still predominantly born by women. Unlike neighbouring countries, the Republic of Serbia has largely preserved the rights related to maternity leave, child care and the possibility of early retirement (with its largely debated effects on gender equality), and also established certain measures of positive action in these areas.<sup>8</sup>

According to aggregate data from this study, as well as the relevant documents and gender-sensitive statistics, women in Serbia are in a similar position to women in other post-communist countries, losers in transition, especially if they are elderly, poorly educated, living in rural areas or belonging to minority groups. Statistical data as well as the relevant research data mentioned above, speak of their disadvantaged social and economic situation in Serbia and the high proportion of women with no regular income or lower wages, a high degree of unemployment, low rate of activity and a high risk

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<sup>8</sup> National Strategy for the Improvement of the Position of Women and the Improvement of Gender Equality

of poverty among this group. Data shows which are the particularly vulnerable women, such as women living in rural areas, single mothers, housewives, Roma, refugees, uneducated and unemployed women, the sick, the disabled and victims of violence. But the data also shows huge potential within this group when it comes to their educational level, their contribution to the social welfare system and to overall social development, which means that women's inclusion in society requires a special strategy and planning, primarily within the social policy sector.

### ■ What European integration brings

In the typical European view gender equality is considered an integral part of social justice, social inclusion, social solidarity and a precondition for economic development and social stability. Having started as a peace project, the European Union is developing into a system which encompasses values and qualities which include all individuals and societies. The motto "United in Diversity" has been followed throughout the decades, appreciating the richness of all the nations in the continent, and viewing differences as a valuable contribution which each nation, and each individual, brings to the EU's peace project.

Looking at gender politics at the EU level, and its historical development, it has been a long process of testing and measuring the possibilities for the sustainable inclusion of women into national societies, and more broadly into EU society. Women in the EU and in the

Member States are treated differently, which means that there is more to be done. The driving forces behind the improvement of women's status within the EU have been different, but one of the most important is the influence of feminist movements, firstly on the national, and secondly on the EU level. Institutions on the EU level (EU Commission and EU Parliament) are important instruments for this purpose. Integration processes – the widening of the EU to include both Eastern European countries and Scandinavian ones, made this process in some ways more challenging but it also gave an important stimulus for developing different strategies which could be adjusted at the national level.

Today, gender policy on the EU level is seen as the one that encompasses the equal treatment perspective, women's perspective and gender perspective. Those three approaches represent the different stages of the development of gender politics on the EU level, and also the main principles of gender equality. Equal treatment, as an early stage approach, was focused on advocating for the equal treatment of women in both the private and public sphere, which really meant equal rights when it comes to resources and products in society. The women's perspective in gender politics means that women won't be equal as long as they are not empowered to emphasise their differences and make them visible in both the public and private sphere. Those two approaches have resulted in creating a legal and institutional framework for further dealing with gender equality. On the one hand equal treatment regarding work and the economic sphere has been established,

and on the other, the specific treatment of women has been established when it comes to the protection of pregnancy, child care, violence against women, etc.

Gender perspective, as the most radical approach, questions those two principles, but it also complements them. It questions basic rules which do not change patriarchal patterns in both the public and private sphere. This approach demands changes in these patterns by changing the rules of the game, structural changes where women are seen not just as the ones for whom changes should be made, but also as the ones that shape the patterns, create policies in all spheres of society. Gender perspective is equally important when it comes to planning the defence of the country and when it comes to planning health care policies. This perspective resulted in the EU directive of 2006 (2006/54/ES) which is binding upon all Member States and requires them to bring gender perspective into all laws, policies and strategies.

A look at the evolution of gender equality within the EU leads to several conclusions which provide a useful basis for analysis in the context of the Serbian integration process. Firstly, the question of gender rights is not just a women's question; it is a question of the overall development of society. It means that all stakeholders have to be involved in that process and develop a sense of ownership over it. It is long term process, but not a peripheral process, compared to the equally important challenges in the sphere of economics. The quality of all reforms greatly depends on the inclusion of gender perspective. By combining all approaches, it is possible



to tackle inequality on several fronts and with different measures, which will make results more tangible and sustainable.

### ■ Form versus practice

Recent popular and populist rhetoric has it that women are not left out from the development processes in Serbia, but that their contribution is not visible. That kind of statement undermines the achievements of all those that for decades have worked to improve women's position in society. Unpaid work, such as housework, caring for the elderly, while a contribution to society, directly discriminates against those who do that work - women. It is work that is not paid proportionally, and therefore it is not perceived as work. It is also a direct replication and legitimisation of the patriarchal pattern of roles within the society.

Over the past decade, European efforts to harmonise social policies concerning the unemployed in Member States have taken into account in particular the employment of women, older workers, the long-term unemployed, the disabled and minority groups. In order to encourage equal treatment of men and women the use of so-called proactive intervention to achieve equality has been launched. The most important dimensions of equality include equal pay, women's participation in political decision-making, positive discrimination, as well as measures and instruments for achieving changes in values and norms and overcoming prejudices which hinder the process of gender equality. A new approach

to the changing needs of adjusted employment now includes the active involvement of social work in the implementation of the new values, and higher self-esteem through participation in social processes, primarily in employment and political participation. There are different programmes for primary recruitment, training and retraining, occupational programmes for school children, literacy, language learning (for migrants), health and social protection, protection of the elderly, as well as the improvement of infrastructure in underdeveloped areas.

Still, when it comes to the impact of the measures aimed at empowering disadvantaged groups, there is a substantial deficit in both implementation and monitoring. Some Laws do not include provisions for implementation and sanctions for abuse. Strategies, even very important acts of government, are politically binding but lack the concrete instruments and procedures that would ensure effective monitoring of their implementation.

The institutions are mainly formed at the executive and legislative level, but not at the judicial level, bearing in mind that we still do not have mechanisms for the protection of rights. The main obstacle to women achieving their rights however still lies in the people concerned: representatives and decision makers within national and local institutions who do not perceive the broader importance of the inclusion of women in society. Their distance from the citizens results in the attitude that gender equality and women rights are still a side topic and one for which there is still time to deal with. At this

stage of the development of gender equality here lies the root of the problem - elites which do not understand and do not have the will to understand the importance of the inclusion of women, or even all other disadvantaged groups, in society, from a development point of view. No sustainable social development is possible if the elites are not properly educated and sensitised to take an active part in this process. In a traditional society such as Serbia, the influence of the elites on the citizens is strong, and it is therefore to be expected that when a pattern is set by the elites, citizens will follow.

## ■ Conclusions

This analysis shows that the inclusion of women into the labour market, and in overall society, is extremely difficult. Particularly difficult is the inclusion in the labour market of women from marginalised social groups. This analysis also suggests that introducing laws and institutions with a mandate to address women's problems and deal with gender equality is certainly not enough for achieving the proclaimed goals. Laws and institutions lack concrete action plans and rules of procedure for fulfilling their activities and objectives. When it comes to the economic empowerment of women, which is often perceived as a precondition for their empowerment in other spheres, it is not just about creating equal opportunities for women to get the job or to create one for them. Programmes for basic qualifications, additional qualifications, grants and loans for entrepreneurship are not sufficient and often

are more damaging if they are not tailored specifically to the needs of the target group – women in this case - and if they are not supported by other activities and measures, like, for example, mentorship programmes. It is about adjusting the overall environment to make it supportive to women, helping them balance their private and public roles, which means that empowerment of the marginalised group demands structural changes and a systematic approach and support.

This brief overview of the state of gender equality in Serbia should be taken as a starting point for a deeper and broader advocacy of concrete measures that will affect both women and men in terms of their empowerment, which will lead to their full inclusion in society, through the labour market and their participation in other social processes. Although there has been a lot of research aimed at the same goal - to create more opportunities for citizens to improve their quality of life and therefore promote social development, the policy makers rarely take those results seriously when taking decisions. Enjoying their rights in the full sense is a precondition for women's economic empowerment, which means that it is not enough to simply pay lip-service to those rights. This is not only a consequence of inadequate measures for the empowerment of women, but of a general strategic approach which is often too superficial and does not tackle the problems in the society affecting a specific marginalised group.

At this stage of women's inclusion in society it is realistic to say that substantial changes in the social development won't be achieved in the near future.

Women's issues remain confined to the circles that are already aware of the problems, but their voice is not being heard enough and their reasons are not considered important enough. The process of European integration did give an important stimulus for creating a good foundation and an adequate framework, but it will need to be given content. This content firstly needs to be created using precise data and by people with a good knowledge of the sustainable development of society. Some recommendations are therefore proposed:

- Increase the decision makers' knowledge of gender equality, concrete approaches and its importance for sustainable social development;
- The establishment of instruments and binding mechanisms for the implementation and monitoring of laws and policies;
- The promotion of collective and individual responsibility for combating poverty and social exclusion;
- Encourage the formal of partnerships between government and civil society with a view to improving the status of gender equality in Serbia;
- Introduce gender budgeting in the planning, preparation and use of budgets at all levels of government;
- Develop gender-sensitive statistics in all areas of social life that will enable gender analysis and planning policies directed towards satisfying real needs;
- Reform social protection with a further decentral of powers and resources to enable access to social services and vulnerable groups;

- Insist on a tailored approach with well-designed supporting mechanisms when it comes to creating active measures for the economic empowerment of women and other disadvantaged groups;
- Support the development of adequate research methodology and further research in the area, to be used for policy planning.

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# Inclusive labour markets and decent work: Strengthening the capacities of social partners

## Overview of Actions on Youth Unemployment in the EU and in Bosnia and Herzegovina

**Nikola Lazinica**

Resident Twinning Advisor Assistant, EU IPA Project  
“Strengthening the National Planning Process in Bosnia and Herzegovina”

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### ■ Introduction

The purpose of this article is to examine the role of social partners in Bosnia and Herzegovina in combating youth unemployment in particular. The Treaty of Lisbon (Article 152 of the Treaty on the Functioning of the EU) recognises the role of the social partners in labour

relations and European social dialogue. Social partners sit on the European Economic and Social Committee, alongside other organisations that represent civil society.

The fact that the European Council of June 2013 focused on the social dimension of Economic and Monetary Union (EMU) clearly shows that this issue is high on the current agenda. One of the conclusions of the June European Council was: "Considering the alarmingly high number of unemployed young Europeans, EU leaders agreed on a comprehensive approach to combat youth unemployment". In this comprehensive approach, the involvement of the social partners was recognised as extremely important.

Youth unemployment in Bosnia and Herzegovina is alarmingly high – it is 63.1 %, the highest in the region (Serbia 51.2 %, Montenegro 43.7 %, and Albania 23.6%). Among the Member States, the highest youth unemployment rates were registered in Greece 55.3% and Spain 53.2%.

An inclusive labour market is defined in the EU-level social partners' Framework Agreement of 25 March 2010 on Inclusive Labour Markets as a labour market that allows and encourages all people of working age to participate in paid work and provides a framework for their development<sup>1</sup>. Social partners at the EU level, namely ETUC (European Trade Union Confederation),

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<sup>1</sup> Framework Agreement on Inclusive Labour Markets. ETUC/ CES, Business Europe & UEAPME. CEEP March 2010. Available at: [http://ec.europa.eu/employment\\_social/dsw/public/actRetrieve-Text.do?id=8850](http://ec.europa.eu/employment_social/dsw/public/actRetrieve-Text.do?id=8850)

Business Europe (Confederation of European business), UEAPME (European Association of SMEs) and CEEP (European Centre of Employers and Enterprises Providing Public Services), have recognised in this Agreement that achieving an inclusive labour market depends largely on the activities of public actors and other stakeholders.

Social partners at the EU level are also aware of how important their role is in fighting youth unemployment, and published the “Framework of Actions on Youth Employment”<sup>2</sup> in June 2013. Given that this Framework is the first priority of their Work Programme for 2012-2014, it is evident that the EU social partners are committed to addressing the issue of youth unemployment. In this publication, the European social partners identified four priorities: learning, transition, employment and entrepreneurship. For each of the four identified priorities, the EU social partners have issued a list of recommendations. There is also a list of short-term and long-term actions, a clear indication that the issue of youth unemployment will form a significant part of future activities. It is worth noting that during the June 2013 European Council, the abovementioned social partners, for the first time, had the opportunity to discuss measures for combating youth unemployment and access to finance for business directly with the EU Heads of State and Government.

This paper will tackle the issue of strengthening the capacity of social partners in Bosnia and Herzegovina

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<sup>2</sup> Framework of Actions on Youth Employment, June 2013  
[http://www.etuc.org/IMG/pdf/201306\\_Framework\\_of\\_Actions\\_Youth\\_Employment.pdf](http://www.etuc.org/IMG/pdf/201306_Framework_of_Actions_Youth_Employment.pdf)

(BiH) to achieve inclusive labour markets and decent work, with a special focus on measures for combating youth unemployment.

An overview of the current state of affairs regarding the social partners in BiH was necessary because of the complex governance structure in the country. The fact that there is no representative Employer's Association at the state level represents a threat for any future EU funded action to support social partners. Following the overview of the current role of social partners in BiH, there is a brief outline of youth unemployment in BiH.

The principal reasons for the high rates of youth unemployment were identified in the third section of the paper. The gaps identified served as a guide to determine the areas where the EU could focus its assistance in the future in combating youth unemployment in BiH with the involvement of social partners.

## ■ Social partners in BiH and their current role

The governance structure in BiH is complex and multi-layered across the two entities (Republika Srpska – RS and Federation of Bosnia and Herzegovina - FBiH) and Brčko District of BiH - BD. In addition, the FBiH has ten cantons, which have a significant role in the area of labour and social rights.

At the moment, social dialogue in BiH takes place at the entity, canton, sectoral and company level. The labour laws of the entities and BD set out the basis for tripartite and bipartite social dialogue, as well as for the establishment of the Economic and Social Councils.

Tripartite and bipartite collective bargaining takes place at the level of the entities, cantons and BD. Entity-level Economic and Social Councils meet regularly and provide opinion on economic and social issues.

The role of the social partners was recognised with the Treaty of Maastricht and it was further reinforced with the Treaty of Lisbon. Article 152 of the Treaty on the Functioning of the EU stipulates “The Union recognises and promotes the role of the social partners at its level, taking into account the diversity of national systems. It shall facilitate dialogue between the social partners, respecting their autonomy”<sup>3</sup>.

Even though the EU Member States have different traditions, social partners are indispensable actors in ensuring successful labour reforms and economic and social measures.

When analysing the role of social partners in BiH, one important finding is that the activities of trade unions are focused mainly on maintaining the achieved level of worker’s rights, as the pressure to reduce these rights is constant (even though the rights are far below EU standards). Trade unions play an active role if, for example, the restructuring of a company requires the dismissal of surplus employees. Many trade unions across all Western Balkan countries have so-called youth sections. Nevertheless, these youth sections are mainly only a small section within the confederations. Partnerships and joint actions between trade unions and

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<sup>3</sup> Treaty on the Functioning of the European Union <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0447:0200:en:PDF>

employers' associations are almost non-existent and the reason is that social partners in BiH are old-fashioned. In addition to their current advisory role in the design of policy measures, social partners should have an active role in their implementation. Joint actions involving organisations representing the two sides of industry (employers and workers) are not being implemented.

The following trade unions are the most important in BiH: Confederation of Trade Unions of BiH- KSBiH was established in 2005 on the basis of an agreement between three trade unions (Confederation of Independent Trade Unions of BiH - SSSBiH, Confederation of Trade Unions of RS - SSRS and Brčko District Trade Union) and has observer status in the ETUC. SSSBiH<sup>4</sup> has 24 sectoral (branch-level) trade unions whereas SSRS<sup>5</sup> has 15 sectoral (branch-level) trade unions.

Regarding the employers' associations, the situation is more complex. The Association of Employers of BiH was set-up as an organisation without an adequate Law on Representativeness. In addition, there are the Association of Employers of RS, Association of Employers of FBiH and Association of Employers of BD.

A simple comparison of the 2012 Progress Report and 2013 Progress Report in the area of labour and trade union rights leads to the conclusion that there was no progress at all. No progress has been made with regards to the establishment of the state-level Economic and Social Council, as there is still no Law

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<sup>4</sup> [http://www.sssbih.com.ba/index\\_files/Page366.htm](http://www.sssbih.com.ba/index_files/Page366.htm)

<sup>5</sup> [http://www.savezsindikatars.org/granski\\_sindikati.php](http://www.savezsindikatars.org/granski_sindikati.php)

on Representativeness of the social partners. The most important finding of the Progress Report in relation to the role of social partners in BiH is the following: “BiH is required to institute a State-Level Economic and Social Committee in order to conform to the requirements of the International Labour Organisation charter, to which it is a signatory. Such committees exist only at entity level. The European Social and Economic Committee has also expressed its concern about the failure to establish such a Committee in BiH.”<sup>6</sup> (EC Progress Report BiH 2013).

## ■ Youth unemployment in BiH

BiH’s labour market is far from being inclusive. Even though some progress had been achieved over the last 18 years (since 1995 and the Dayton Peace Agreement), the economic crisis has led to certain setbacks.

The importance of engaging all relevant actors (public authorities, social partners and all other relevant actors) in achieving more inclusive labour markets, but in particular in tackling the issue of youth unemployment, is evident as the table below clearly indicates that unemployment rates among youth are extremely high.

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<sup>6</sup> BiH 2013 Progress Report accompanying the document Enlargement Strategy and Main Challenges 2013-2014 {COM(2013) 700 final} [http://ec.europa.eu/enlargement/pdf/key\\_documents/2013/package/ba\\_rapport\\_2013.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/ba_rapport_2013.pdf)



Table 1. Youth employment and unemployment rates (15-24 year olds), 2010-12

	2010	2011	2012
Employment rate (%)			
BiH	14.0	13.2	10.8
FBiH	12.4	12.6	9.6
RS	17.8	14.9	14.0
BD	11.5	8.9	7.3
Unemployment rate (%)			
BiH	57.5	57.9	63.1
FBiH	62.3	59.7	67.1
RS	46.8	53.2	54.3
BD	63.4	70.9	64.4

Source: BHAS (2010, 2012) Labour Force Survey - Anketa o radnoj snazi, Sarajevo, December 2012.

Even though the grey and informal economy in BiH is widespread and any data on unemployment rates do not correspond to the actual situation, the fact is that unemployment rates in general and youth unemployment in particular are extremely high in BiH.

Addressing the youth unemployment issue is of utmost importance for the future of BiH. An important characteristic of BiH society is that the percentage share of young people is declining and at the same time, the youth unemployment rate is increasing. The official results of the BiH 2013 Population Census are still to be published, but according to the first results published by the BiH Agency for Statistics, BiH's population is 3.791.622. This leads to the conclusion that BiH's

population has shrunk by more than half a million people in the last 20 years (the last official Population Census was held in 1991 when the population of BiH was 4.377.033). Inclusion is a very important element in the response to long-term challenges, in particular demographic change, the brain-drain and the shrinking working-age population.

The official BiH Employment Strategy 2010 -2014 has set a target of 30% youth unemployment for 2014, and it is more than evident that this target will not be reached. The transition of young people from education to employment has become longer and more complex.

In order to get more insight into the current situation in BiH, the official data on the unemployment rate for young people in BiH with tertiary level education needs to be analysed. When comparing the number of young unemployed people with tertiary level education in RS, an almost five-fold increase can be seen.

Table 2. Number of young unemployed people with tertiary level education in RS

	September 2007	September 2013
15-24 years old total number of unemployed people in the RS	17 287	17 980
24-30 years old total number of unemployed people in the RS	21 536	26 657
Total number of unemployed people in the RS with tertiary level education	2 652	12 434

Source: RS Employment Bureau.

Even though the Europe 2020 Strategy has set a target of at least 40% of 30-34-year-olds completing third level education (or equivalent), this target should not be an objective for itself. Labour market demand and labour force supply should be better taken into consideration. In BiH, the situation with tertiary level education is quite the opposite – a lot of private universities have been established and are turning out large numbers of people with tertiary level education who are then facing a serious struggle to find employment matching their level of education.

### **How can the EU support efforts to combat youth unemployment in BiH with the involvement of the social partners?**

First of all, any future support for the social partners in BiH that would address the issue of youth unemployment will depend on the capacity of the social partners to participate in the design and implementation of such actions. At the moment, as it is stated in the EC Progress Report BiH 2013, “social partners are not well equipped for engaging in social dialogue on a systematic and targeted basis, and the institutions where such dialogue takes place in an open and democratic way either do not exist, or they are not effective enough to contribute to constructive debate”. It is evident that the priority for action in this area should be capacity building for the social partners in BiH.

An integral part of any future policy should be active labour market measures. In addition, tripartite

consultations should become a joint forum for cooperation on the design and implementation of policies aimed at reducing youth unemployment in particular. At the moment, tripartite consultations and collective bargaining in BiH are mainly focussed on the people that are already employed. However, collective bargaining on the terms and conditions of the work of interns and apprentices should also be part of the discussions.

EU support for capacity building for social partners in BiH is important, as the future use of EU funds (such as the European Social Fund) is dependent on the capacity of institutions, social partners and intermediate institutions (such as chambers of commerce, professional and sectoral organisations, development agencies, NGOs etc.). The effectiveness and efficiency of the implementation of EU funded projects will be determined by the capacity of the implementing bodies and the partnership between all relevant stakeholders, including social partners. A priority for action in the area of capacity building should be spreading good practice from the social partner organisations in the EU countries.

While fully recognising that the most important reason for the high unemployment rates in BiH is the overall economic situation in the country, the fact is that one of the reasons why youth unemployment is so high is the quality of education.. The level of underemployment and the gaps in vocational training systems were also identified in the EC Progress Report.

Outdated teaching methods and curricula along with no practical experience through internship or

apprenticeship programmes during education are further deepening the problems. EU Member States with strong vocational education and training (VET) systems have the lowest rates of youth employment. In addition, youth unemployment rates are significantly lower in countries where combined study and work is more common (such as Germany, Austria, Denmark and the Netherlands).

Dual learning systems (in particular the German model) are recognised throughout the EU as examples of best-practice. The EU could offer support in selected pilot municipalities and sectors in BiH for establishing cooperation between companies and educational institutions. Social partners should be the driving force of the future working groups which would have the task of setting transferable certification standards.

This is precisely the area where social partners should play a more active role. Considering the fact that work-experience placements, including internships and apprenticeships, are not common in BiH, the EU can support establishing closer partnerships between educational institutions and enterprises.

The EU can also offer support in improvements in the design and implementation of school, VET and university curricula. These issues are high on the EU's social partners' agenda, and it is clear that any action of this kind requires the involvement of the social partners. By strengthening the capacities of social partners, it becomes easier to detect the often conflicting interests of employers and workers and identify common goals. Learning programmes are then better suited to actual

needs. The establishment of sector alliances between public authorities, employers and trade unions that would address this issue in BiH needs to be supported.

In order to get a better idea of the current role of social partners in BiH and their activities, we can look at an example from the FBiH entity: the FBiH Employment Institute and the FBiH Association of Employers signed a Memorandum of Understanding on 4 June 2010<sup>7</sup>. In Article 8 it is stipulated that cooperation will also encompass a common approach when addressing the ministries of education regarding a better alignment of the inscription policy and the needs of employers. There is no mention of apprenticeship programmes, internship programmes, promoting the mobility of the labour force across the entity, dual learning systems, or any other form of non-traditional cooperation.

It is evident that the institutional capacity for implementing active labour market measures also needs to be strengthened in BiH in order to address the issue of youth unemployment. When providing support to the public institutions in this area, one key activity that must always be included in any such project must be establishing partnerships between the governments in BiH and the employer's organisations.

One of the examples where government-led action tried to tackle the issue of youth unemployment in BiH are the traineeship programmes for people entering the labour market for the first time. For several years the RS

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<sup>7</sup> Available at: [http://fzzz.ba/onama/Sporazum\\_FZZZ\\_UPFBiH.pdf](http://fzzz.ba/onama/Sporazum_FZZZ_UPFBiH.pdf)

Government funded a traineeship programme whereby it co-financed the gross salary of trainees to the tune of 60% for the first 12 months, while the employers were supposed to cover the remaining 40%. The project was aimed at young people irrespective of their level of education – young people with tertiary level education as well as young people with secondary level education were included in the project. Nevertheless, during both the preparation and the implementation process, the employers (Associations, Chambers of Commerce etc.) were not widely consulted and the project did not lead to the expected result. The majority of the traineeship contracts were in the public sector, while the private sector didn't show much interest.

Similar programmes were also implemented in the FBiH. For example, the Sarajevo Canton has a similar project. An analysis of the 2013 list<sup>8</sup> of placements (Source: Sarajevo Canton Employment Service), shows the same pattern emerging – the majority of placements are within public sector institutions and companies.

Donor activities should be coordinated and more policy focused. For example, the ILO Decent Work Country Programme document 2012-2015 for Bosnia and Herzegovina<sup>9</sup> has identified as three main priorities

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<sup>8</sup> <http://szzks.test.promotim.ba/upload/documents/1.Pripravnicima%20po%20Programu%20mjera%20za%20-13.godinu%2022.06.13-2.pdf>

<sup>9</sup> Bosnia and Herzegovina Decent Work Country Programme Document 2012-2015 (International Labour Office, Budapest, and BiH Council of Ministers, Sarajevo) <http://www.ilo.org/public/english/bureau/program/dwcp/download/bosniaherzegovina2.pdf>

the following: 1) Strengthening capacity of government institutions and the social partners to improve the governance of the labour market; 2) Increasing employment opportunities and 3) Strengthening social protection systems. A coordinated approach will lead to better results, and it is a good thing that the ILO has set as one of its priorities strengthening the capacity of social partners to improve the governance of the labour market in BiH.

EU support for the modernisation of public employment services is also required as the following authorities implement employment policies in BiH: FBiH Institute of Employment and Cantonal Employment Offices, the Employment Institute of RS and the Employment Institute of BD.

One positive example of the employment institutes' work is the implementation of the "Youth Employment Project – YEP (2008-2014)". This project is funded by the Swiss Agency for Development and Cooperation and Austrian Development Agency. The first ever job search club in BiH was equipped and opened in Banja Luka (RS). One more club was opened in RS (Gradiška) and one in FBiH (Tuzla). The Clubs provide assistance in job-seeking to unemployed people aged 18-30 years who have been registered as unemployed for more than one year. Establishing more clubs of this kind is envisaged throughout the country. The EU could further develop the Job Search Clubs established through this project. One of the specific actions which should involve social partners could be prioritising support for young unemployed people who would like to shift from one



sector to another. Support in adapting their skills should be provided by employers.

Entrepreneurship should be promoted and supporting mechanisms for young entrepreneurs should be developed. Seed funding is limited and proper education and training on entrepreneurship is not offered. BiH's overall rank according to the Doing Business 2014 Report is 131st, which is by far the worst rank among Western Balkan economies (FYRoM 20; Montenegro 44; Kosovo\* 86; Albania 90; Serbia 93). It is evident that action by public authorities' actions is the most important factor in improving the overall ranking of BiH. Nevertheless, the EU could offer support to the social partners in promoting entrepreneurship by establishing and promoting joint initiatives by the social partners and schools/universities. The social partners could foster training and mentoring services for young entrepreneurs, and this is an area where the EU could offer its support.

Taking into consideration the complexity of BiH and its structure, the EU approach should be meticulously adapted to the reality of BiH as it is a highly decentralised country. Common goals and indicators that would make possible the monitoring and evaluation of the real of set goals should be put in place, but setting common goals and indicators should not be the objective *per se*.

With the new instrument IPA II (2014-2020)<sup>10</sup>, which will replace the existing IPA (2007-2013), EU financial

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<sup>10</sup> Proposal for a Regulation of the European Parliament and of the Council on the Instrument for Pre-accession Assistance (IPA II) {SEC(2011) 1462 final} {SEC(2011) 1463 final} [http://ec.europa.eu/enlargement/pdf/highlight/20111207\\_ipa\\_final\\_en.pdf](http://ec.europa.eu/enlargement/pdf/highlight/20111207_ipa_final_en.pdf)

assistance will no longer depend on the distinction between candidate and potential candidate countries. Up until now, BiH benefited only from the first two components of IPA I: Component I - Transition Assistance and Institution Building and Component 2 – Cross Border Cooperation. In the next programming period, the funds will be earmarked, among others, for the policy area Employment, social policies and human resources development. Thus, activities such as active employment measures and creation of job opportunities with a particular focus on vulnerable groups, the modernisation of public employment services and the development and implementation of active labour market policy measures could be financed through IPA II.

It is important to bear in mind the fact that BiH did not participate in the Leonardo da Vinci programme and that is why in the coming years preparatory measures for participation in the Erasmus + programme should be completed.

While fully recognising the positive sides of the mobility of young people, the retention programmes also need to be developed, as the population of BiH is rapidly ageing. If young people acquire skills and knowledge while studying either abroad or in BiH, their integration into the BiH labour market needs to take place swiftly and smoothly, otherwise BiH risks losing its potential for future growth.

As has been the case in the Leonardo programme, special attention should be given to facilitating the participation of sectors, social partner organisations and companies, in particular small and medium-sized

enterprises (SMEs), in all Leonardo da Vinci related actions for the future Erasmus + programme.

## ■ Conclusions

In the area of inclusive labour markets and decent work special attention needs to be given to the issue of youth unemployment. The extent to which the governance of the labour market can be improved is determined by the capacity of government institutions and the social partners. Strengthening the capacity of government institutions, which is one of the priorities of the EU's assistance to the candidate and potential candidate countries (such as BiH) should be accompanied by strengthening the capacity of social partners.

Improving the quality and increasing the volume of cooperation between institutions or organisations providing learning opportunities, enterprises, social partners and other relevant bodies should be one of the objectives of EU assistance in the coming years.

Specific actions which could be supported by the EU include, among others, the establishment of apprenticeship schemes, following the example of the European Alliance for Apprenticeships, and should include the pre-accession countries. The EU funding programmes for pre-accession countries (as is the case with the ESF for the EU countries) could provide initial funding for setting up the apprenticeship schemes. These schemes should be based on close partnerships between government, the education system and business. In addition, the EU could offer expert support

to BiH in establishing the framework conditions for apprenticeships and traineeships which would create more attractive conditions for enterprises when hiring young people. Social partners should be closely involved when establishing these framework conditions.

The EU could offer support in selected pilot municipalities and sectors in BiH for reinforcing cooperation between companies and educational institutions in order to establish and promote dual learning schemes in BiH. Cooperation between the social partners and education system is vital for closing the gap between skills supply and demand. By offering support to the institutions and the social partners in establishing such schemes, the EU could help in setting up the missing link between the education system and business.

A further strengthening of VET in BiH is important, and the involvement of social partners in research and the establishment of training standards and competence-based curricula should be enhanced.

Developing cooperation projects that would focus more on including businesses as partners with educational establishments and youth organisations is an example of where the social partners, but namely the employer's associations and chambers of commerce, would be able to actively participate in addressing the issue of youth unemployment.

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## Building partnership to reduce informal economy in Serbia

*Building Partnership to Reduce Informal Economy* in Serbia was a one year development cooperation initiative (21 June 2010 - 20 June 2011) funded by the EU (within the project *Strengthening Serbia-EU Civil Society Dialogue*) whose aim is to contribute to reducing the informal economy in Serbia according to EU best practices and standards.

The project involved the following organisations:

- Progetto Sviluppo CGIL, the Italian applicant;
- The trade unions CATUS and UGS Nezavisnost and the Association of Employers, as Serbian partners;
- The trade union CGIL, as the Italian partner;
- SOLIDAR as the European associate;
- The Socio-Economic Council and the Standing Conference of Towns and Municipalities as Serbian associates.

The project aims were three-fold. Firstly, it aimed to strengthen the role and the participation of Civil Society in promoting human rights and democratic reforms in Serbia, enhancing dialogue among relevant stakeholders in the field of the informal economy. Secondly, its objective was to lessen the negative effects of the global economic crisis on employment, and to spread best practices and collaboration initiatives among relevant stakeholders and decision-makers throughout Serbia, through the three local initiatives to promote Decent Work and Social Dialogue. Thirdly, it

supported carrying out agreements and new proposals for the better protection of workers' rights.

The main target group was workers in the informal economy in the cities of Krusevac, Loznica and Subotica (Rasina, Macva and North Backa regions), with special focus on those involved in the tourism, trade and construction sectors. The final beneficiaries of the action are the civil society organisations and local institutions of these municipalities.

In order to raise awareness and to inform the citizens, workers and employers of Krusevac, Loznica and Subotica about topics related to the informal economy, decent work and European values, information campaigns have been carried out in the project areas. During the project period, a TV spot was produced and has been broadcast on the local media of the three project areas. At the same time, informational material has been produced and distributed through an information campaign. As a result of those activities, around 55.000 workers and employers and 128.000 citizens of the three project areas have been reached.

At the end of the project, three protocol agreements among representatives of trade unions, employers associations and local authorities on concrete measures and activities to bring the informal economy into a legal framework have been signed in Krusevac, Loznica and Subotica and local action plans for employment in Krusevac and Subotica have been carried out.





# Trade unions in Bosnia and Herzegovina: Marginalised actors in the EU accession agenda-setting

**Djordje Tomic**

Senior Teaching Assistant, Faculty of Political Science and International Relations, Univesity of Banja Luka

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## ■ Introduction

The current pre-accession agenda in Bosnia and Herzegovina (BiH) marginalises the social dimension, allowing the exclusion of numerous stakeholders from the process. Moreover, the country has faced a series of negative Progress Reports submitted by the European Commission since the signing of the Stabilisation and Association Agreement in 2008. This article aims to establish a connection between the exclusion of social actors – namely trade unions – from the pre-accession activities and the lack of momentum for decisive reforms that can improve the standard of living and enhance adherence to the European Union's (EU) criteria. The

hypothesis is put forward that: a) the initial agenda-setting dynamics excluded labour representatives as actors and thus prevented a more social-oriented pre-accession; and b) this situation, in turn, limits internal incentives and hinders accession efforts. The main methodological tools are structural and dynamic analyses of the roles of both the EU and the trade unions (documents, institutional provisions, statements) and content analysis of relevant documents. The paper explores the multilevel processes and external-internal interaction, based on the concept of EU governance by conditionality. The possibilities for improvement of the current situation (such as a more direct EU-trade unions' interaction) are discussed in the concluding part of the article.

The delays in Bosnia and Herzegovina's (BiH) European integration process reflect the social drawbacks, economic stagnation and political stalemate in the country. The economic and social troubles that the country is facing are simultaneously present at the domestic level and observed externally as impediments to EU-accession.<sup>1</sup> Moreover, the process of post-war, transitional and democratic development rhymes with the country's official determination to join the EU. However, regardless of the apparent pro-integration

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<sup>1</sup> BiH signed the Stabilisation and Association Agreement with the EU in 2008 (only the Interim Free Trade Agreement entered in force), had a visa-free regime introduced in 2010 and has access to the finances of the Instrument for the Pre-Accession Assistance (IPA). More information at: <http://www.delbih.ec.europa.eu/Default.aspx?id=12&lang=EN>

orientation of the political elites in the country, deep structural and dynamic constraints hinder progressive change, as was made clear by five consecutive negative Annual Progress Reports for BiH, issued by the European Commission.<sup>2</sup>

Simultaneously, as this paper attempts to show, social issues – especially those related to labour rights – are absent from the main concerns of major actors in the pre-accession process of Bosnia and Herzegovina. By major actors we mean the representatives of the EU (namely the European Commission) and highly ranked government officials on state and sub-state (entity) levels in BiH, and this classification will be justified by the evidence presented below. Furthermore, the paper forwards the argument that the marginalisation of social partners in European integration additionally impedes both internal development efforts and progress towards EU membership. Exclusion of social partners, especially trade unions, deprives the process of internal incentives for policy-making and implementation of regulations. On the other hand, external influences, embodied in EU conditionality, have not strengthened the position of social partners in BiH. The possibilities for a change in these tendencies are also discussed more thoroughly below.

The paper is divided into three sections, before offering conclusions on the matter. First, Bosnia and Herzegovina's main economic and social issues will be

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<sup>2</sup> Reports are available at: <http://ec.europa.eu/enlargement/countries/strategy-and-progress-report/>

analysed, with special attention to the role and position of trade unions in overall social dialogue at different levels in the country. This perspective is indispensable to accounting for the unfavourable situation that BiH finds itself in. In the second part, the extent to which current EU conditionality insists upon improvements in social rights will be questioned, with a special focus on labour issues. The conditionality will reveal the key areas of pressure that the EU places on political decision-makers in BiH. The third section opens a more detailed discussion on the role of trade unions in Bosnia and Herzegovina. The analysis will focus on their inner characteristics and capacities (membership, legitimacy, sources of influence, political ability), as well as in their interactions on various levels – sub-national, state, international. The final stage of capacity-building would be achieving equity in European social dialogue, once BiH has become a fully-fledged member of the EU. This part also presents deeply-rooted constraints in the capacity-building process. Finally, the conclusions seek to open possibilities for the improvement of this situation, not by offering ready-made solutions, but through shedding light on important relations and links that must be taken into consideration for positive future outcomes.

### **Social and economic challenges in Bosnia and Herzegovina – difficulties for the social partners**

The country's performance is limited and fraught with difficulties emerging from the post-war and transition period. The country's GDP per capita amounted in

2012 to 4,392 US dollars, as the Central Bank of BiH has reported, or to 4,461 dollars, according to the International Monetary Fund.<sup>3</sup>

The downsides of BiH's economic portrait are more visible in terms of unemployment. The available data shows not only a high official unemployment rate, but also considerable underlying trends of informal employment. The official unemployment rate in BiH has risen to 44%.<sup>4</sup> A substantial part of the officially unemployed are nevertheless engaged in irregular work and real unemployment is thus registered at 27% in 2013.<sup>5</sup> This means that around one quarter of the active work force in Bosnia and Herzegovina is employed on the black labour market.

As for the representation of those legally employed, the separation of powers in the area of social protection is reflected in the structure of trade union organisations. Unions function at the entity or canton levels (Federation BiH and Republic of Srpska), and so do the ministries responsible for labour. The creation of a state-wide Confederation of Trade Unions did not bring about a state-centred social dialogue mechanism.<sup>6</sup>

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<sup>3</sup> IMF <http://www.imf.org/external/pubs/ft/weo/2013/02/weo/data/>

<sup>4</sup> Agency for Statistics of BiH [www.bhas.ba](http://www.bhas.ba)

<sup>5</sup> IMF <http://www.imf.org/external/pubs/ft/weo/2013/02/weo/data/>

<sup>6</sup> Kohl, H. (2009). Social dialogue, workers' rights and freedom of association in the Western Balkans – a survey after a first round of empirical research. *South-East Europe Review*, 2/2009, 151-173, pp. 154/5

## International obligations of BiH and external actors in labour rights – a prelude to EU accession

Against a background of inter-ethnic conflict and serious economic inefficiency, a host of provisions related to labour were drawn up internationally or externally for Bosnia and Herzegovina. The Dayton Peace Accord, as the BiH's founding document, placed social policies within the realm of the entities' responsibilities, without a state-level mechanism for social dialogue.<sup>7</sup> Moreover, the development budget and economic planning are also dealt with at the entity level. The state has, nevertheless, ratified important international agreements and has thus taken on obligations for social protection. One such obligation that is especially important for the protection of labour rights is the ratification of the European Social Charter (Revised), in October 2008. However, the assessment made by the European Committee of Social Rights (ECSR) in 2012 shows either evidence of non-compliance or lack of information, which is in itself a breach of the country's duties.<sup>8</sup> A question emerging

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<sup>7</sup> Nešković, R. (2013). *Nedovršena država – Politički sistem Bosne i Hercegovine*, Sarajevo: Friedrich Ebert Stiftung, p. 263.

<sup>8</sup> The ECSR examined six cases in the thematic group "Employment, training and equal opportunities" in its report on BiH for 2012, which resulted in two non-compliance conclusions and four cases where the country had not provided sufficient information. The latter goes the same for the entire thematic group "Labour rights", which was not able to make any assessments. For a detailed account: [http://www.coe.int/t/dghl/monitoring/socialcharter/conclusions/State/BosniaHerzegovina2012\\_en.pdf](http://www.coe.int/t/dghl/monitoring/socialcharter/conclusions/State/BosniaHerzegovina2012_en.pdf) and [http://www.coe.int/t/dghl/monitoring/socialcharter/country-factsheets/BH\\_en.pdf](http://www.coe.int/t/dghl/monitoring/socialcharter/country-factsheets/BH_en.pdf)

from this example is whether external obligations exert sufficient pressure on decision-makers in BiH in order to make visible improvements in social protection.

Whereas the external pressures may vary in intensity and yield questionable results (as it will be pointed out later, especially with the EU pre-accession process), the article would firstly offer an assessment of the internal prerequisites for the trade unions, if they are to influence political outcomes.

### Social prospects of joining the EU and the enlargement policy in Bosnia and Herzegovina

The social aspect of European integration was progressively organised in the EU into what is known as the 'European social model' (ESM). The outlines of social orientation are present in the Treaty on European Union (TEU, Article 2), in the Treaty on the Functioning of the European Union (TFEU) and in the Charter of Fundamental Rights of the European Union. Significant additional provisions, especially concerning social dialogue as an essential part of the ESM, can be found in the Single European Act (1986), the Agreement on Social Policy (as part of the Maastricht Treaty), the European Commission White Paper on Social Policy in 1994 and the Amsterdam Treaty.<sup>9</sup> As social protection issues fall within the realms of shared competencies or open coordination (employment), Member States

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<sup>9</sup> Avdagic, S. (2002). *Social Dialogue and the European Union Accession*. OSI International Policy Fellowship Research Paper, 2001/2002, p. 4.



are under significantly less pressure from the *acquis* in social matters, and so are the candidates for accession. The incremental institutionalisation of social policy in the EU culminated in the Lisbon Treaty, which granted the Charter of Fundamental Rights the status of a legally binding document and placed areas of social protection within shared competencies.<sup>10</sup> However, the interpretation and implementation of social and labour related measures remain largely at the national level, which significantly influences the outcomes.<sup>11</sup>

Relative marginalisation of the social dimension in European politics is taking place, according to Fritz W. Scharpf. He asserts that an asymmetry marks the European project, with Europeanised economic policies and only partly integrated social protection and equality: "As a consequence, national welfare states are constitutionally constrained by the "supremacy" of all European rules of economic integration, liberalisation, and competition law, and they must operate under the fiscal rules of the Monetary Union while their revenue base is eroding as a consequence of tax competition and the need to reduce non-wage labour costs."<sup>12</sup>

On a practical level, the ESM has been conceived and upgraded throughout European construction as

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<sup>10</sup> Sekulović, I. (2010). „Socijalni aspekti ugovora iz Lisabona“ in: Mišćević, T. *Ugovor iz Lisabona- Sigurna luka ili početak novog putovanja?*, Belgrade: Službeni glasnik, p. 104.

<sup>11</sup> *ibid.*, p. 109.

<sup>12</sup> Scharpf, F.W. (2002). *The European Social Model: Coping with the Challenges of Diversity*. MPIfG Working Papers, 02/8, July 2002, available at: <http://www.mpi-fg-koeln.mpg.de/pu/work-pap/wp02-8/wp02-8.html#6>

a system of public expenditure for social needs, tripartite collective bargaining at the European level, negotiations between the workers' and employers' associations and the EU-led open method of coordination facilitating employment.<sup>13</sup> Current practices testify to deeply rooted difficulties in this respect – it can be argued, as Pierre Bourdieu did, that a strong, unified social movement at the EU level and a more legally binding social dialogue are necessary to achieve the desired balance in economic development based on market and social protection.<sup>14</sup>

As Jepsen and Serrano Pascual showed in their deconstruction, the European social model is subject to different interpretations, depending on the prevailing narrative.<sup>15</sup> Even without embracing entirely the constructivist perspective, we can use the three perceptions of the model: first, the ESM as a set of common institutions and values; second, as an essence of different separate systems in the Member States; and, finally, ESM is outlined as an emerging model of modernisation towards which the Member States can converge.<sup>16</sup> In the case of EU enlargement, we have a somewhat clearer situation – the key question is not

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<sup>13</sup> The European Foundation for the Improvement of Living and Working Conditions (Eurofound): <http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/europeansocialmodel.htm>

<sup>14</sup> Gobin, C. (2002). De l'Union européenne à ... l'eupéanisation des mouvements sociaux?. *Revue internationale de politique comparée*, 2002/1 Vol. 9, 119-138, p. 138.

<sup>15</sup> Jepsen, M. & Serrano Pascual, A. (2005). The European Social Model: an exercise in deconstruction. *Journal of European Social Policy*, Vol. 15/3: 231-245, p. 232.

<sup>16</sup> Idem.

about the existing set of shared institutions or an essence in common, but about the transfer of the EU-modelled set of standards. However, a lower level of integration in the field of social policies adds to the imprecision of the model which is to be internalised during the accession process. The conditions are thus created for marginalising social issues in the enlargement process, to the benefit of more articulate and elaborated models that the *acquis* provides in areas like the common market or industry.

### **Enlargement, social aspects – a place for trade unions?**

Social issues are not prominent in the formal accession criteria adopted at the Summits in Copenhagen (1993, political, economic and legal conditions) and Madrid (1995, the criterion of functional administration).<sup>17</sup> Still, criteria for that area were progressively outlined during the enlargement to the Central and Eastern European (CEE) states, by a series of meetings at the ministerial level, ending in specific documents.<sup>18</sup>

The strategy paper “Adapting and promoting the Social Dialogue at Community level”, published in 1998 by the European Commission, set three major directions: first, fostering cooperation between the social partners in the EU Member States and those in CEE; second, motivating the CEE governments to provide more

<sup>17</sup> [http://europa.eu/legislation\\_summaries/glossary/accession\\_criteria\\_copenhagen\\_en.htm](http://europa.eu/legislation_summaries/glossary/accession_criteria_copenhagen_en.htm)

<sup>18</sup> Avdagic, S., *op. cit.*, p. 5.

decision-making leverage to social partners; and the third was to help include the CEE social partners in the European social forums.<sup>19</sup> A series of activities was undertaken under the auspices of the PHARE and ACCESS 2000 programmes, as well as within international trade union cooperation.<sup>20</sup>

The outcomes of the accession process, however, do not necessarily reveal improvements in the social partners' capacity-building. Sedelmeier and Schimmelfennig argue that three features emerge from the enlargement process: the EU exercises prevailing bargaining power; the influence of the applicants over the rules which are being internalised is severely limited; and intergovernmental and inter-bureaucratic links conduct the rule transfer in a top-down mode, thrusting civic and social partners aside ("Even in social policy, where transnational networks were in place and societal actors should have played an important role /especially in the 'social dialogue', they had no input").<sup>21</sup>

The pre-accession agenda is, therefore, mostly in the hands of the EU and the absence of social conditionality can be understood primarily as a choice that the EU has made in its enlargement policy. The experience gathered from the previous enlargement round, shows in practice a pattern of marginalisation of the trade unions' interests.

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<sup>19</sup> COM[98] 322: 17, cited in: Avdagic, S., op. cit., p. 13/14.

<sup>20</sup> *ibid.*, p. 14.

<sup>21</sup> Schimmelfennig, F. & Sedelmeier, U. (2004). Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe. *Journal of European Public Policy*, 11:4, August 2004, p. 675.

Schimmelfennig and Sedelmeier draw conclusions from policy outcomes through negotiations: "Thus, adoption costs and domestic veto players do not play as decisive a role as in the case of democratic conditionality. For example, in the area of social policy, the CEE states even adopted the more costly rules relating to secondary legislation (such as health and safety at the workplace) more fully than the less costly rules relating to the social dialogue..."<sup>22</sup>

On the other hand, placing social issues higher on the enlargement agenda can motivate social actors to take part in the accession process and thus channel more effectively the normative impact of the EU. Based on those assumptions, a more active role of the trade unions can not only be envisaged, but also rationalised and used for the practical goals of enlargement itself. For BiH, not becoming a candidate is both a consequence and an impediment for progress, in a vicious circle of integration stalemate.

### **The strength of the trade unions in BiH – conditions for an active role in the EU accession**

Trade unions in BiH are short of resources, both in terms of membership and financial resources. The aforementioned research offers an insight into the density of representation and into the distribution of finances across the different levels of labour organisations. As far as density is concerned, 30% of

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<sup>22</sup> *ibid.*, p. 672.

the (legally) employed in the country are members of unions.<sup>23</sup> In comparison to earlier data, and bearing in mind numerous grey areas and the complexity of the employment structure, it is conceivable that trade union members in BiH represent only one fifth to one quarter of the active population. Notwithstanding the specific recent war-related troubles in BiH society, falling union membership is a recurrent trend in all post-socialist states – mostly due to membership no longer being obligatory (as in the socialist period) and to restrictive legislation (e.g. high standards for union registration etc.).<sup>24</sup> In Bosnia and Herzegovina, however, an additional limitation for the trade unions is the ethnic and national nature of the conflict and of post-conflict efforts, which channel decisive political and social agendas towards national concerns and inter-ethnic power relations, to the detriment of the social dimension of disputes and decision-making.<sup>25</sup>

The structural problems of representation contribute to the limitations on the trade unions' efforts. Two recurrent features stand out in that respect. First, trade union membership from private small and medium-sized enterprises (SMEs) is very low, whereas the employers' associations recruit most of their members, and very active ones, from this category of companies.<sup>26</sup> This discrepancy is even more serious in light of the fact that SMEs employ the majority of workers in the country,

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<sup>23</sup> Kohl, H., *op. cit.*, p. 155.

<sup>24</sup> *ibid.*, p. 151/2

<sup>25</sup> *id.*, p. 153

<sup>26</sup> *id.*, p. 156.

according to the BiH<sup>27</sup> statistics agency. Having a low number of members from the most numerous category of employees can hardly build an image of good structural representation of the workforce countrywide. Secondly, since the territorial distribution of the population along entity lines is ethnic in essence, entity-based unions tend to have a more or less unified ethnic structure and, consequently, ethnic-national concerns and agendas, other than social ones. Even if today's trade union activities rarely show such ethnic concerns openly, they were fraught with interethnic struggle at the very time of their foundation, in the early 1990s and keep functioning in a deeply divided society. Although an exact evaluation of the ethnic influence on the work of trade unions cannot be established, one cannot overrule the existence – to whatever extent – of such influence, given the situation in Bosnia and Herzegovina. Accordingly, with social instruments being decided at the entity level there have been clear limitations on the scope of action for the state-level Confederation of trade unions of Bosnia and Herzegovina ever since its creation on 2006. In this respect, the experiences of Croatia could be instructive, given that the country has five different recognised national trade union movements. The Croatian path to accession might prove a useful

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<sup>27</sup> Over 60% of the regular workers are employed in micro (11.6%), small (20.8%) and medium-sized enterprises (29.3%), whereas only a relative majority (38.3%) works in large enterprises. Source: Agency of Statistics of BiH, [http://www.bhas.ba/saopstenja/2012/ISPRAVKA\\_SPR\\_Saopstenje\\_2\\_Tekst\\_200912\\_h.pdf](http://www.bhas.ba/saopstenja/2012/ISPRAVKA_SPR_Saopstenje_2_Tekst_200912_h.pdf)

model, given its inclusion of a multitude of trade unions in the process. This comparison could be the subject of further study.

Financially, inner challenges for the trade unions in BiH arise from two major systemic defaults: the overall economic crisis and allocation of trade union resources across the different levels of the organisation. Financially, it is highly conceivable that not much can be gained from the main sources of financing – membership fees and donations – especially with the fees being fixed according to the average wages in the entities. The distribution of finances, on the other hand, shows that most of the resources by far are held at the level of company trade unions, 65-80%, whereas sectorial unions are entitled to 10-15%, leaving the umbrella organisations (Federation BiH and Republic of Srpska) with merely 15-20% of the affiliation fee income. Financial assets are especially important for the topic of this paper, the role of trade unions in EU integration, given the hypothesis that financial support is indispensable for an organised and systematic influence over the pre-accession agendas in Bosnia and Herzegovina.

The structural and financial capacities of the trade unions in BiH are therefore both limited from the outside – by divisions and a lagging economy – and on the inside, by asymmetric representation, by obstacles to more unified action and by financial difficulties. All these limiting factors call for consideration of the political independence and power of trade union organisations. The question to bear in mind is whether approaching the EU and its social



protection instruments, by means of conditionality and negotiations, can contribute to the future trade unions' capacity-building. If the latter is possible, which conditions would be required for such a kick start for the trade unions? Before looking for answers to those questions, these labour issues will be put in the social context of enlargement.

### **Trade unions in BiH from the enlargement perspective – attention at the formal level and marginalisation in practice**

The EU's 2013 Progress Report on Bosnia and Herzegovina is the fifth in a row to detect no progress in the country's European integration. These assessments are the results of thorough screening and take into account a wide range of obstacles on the path towards EU membership. This wide range, however, cannot be found in the more concrete political activities of the EU representatives, especially the ones with normative influence, such as the Commission officials charged with the enlargement policy.

The case of trade unions accurately shows that disparity between the documents concerned and far narrower actions. First, the reports tackle directly the problem of trade unions' underrepresentation. The Progress Report for 2013 asserts: "With regard to labour and trade union rights, the fragmentation of the legal framework for social benefits and pension rights continues to be of concern. A State-level Economic and Social Council has not been set up. The criteria or legal

framework for the recognition of social partners at State level has not yet been established...<sup>28</sup>

Although some progress is registered in terms of strengthening cooperation between the two entities and the District of Brčko, the Report makes the following remark: "Labour market challenges remain considerable and are becoming more serious. The Entity governments lack the capacity to implement active labour market measures... The lack of coordination among labour institutions in the country remains a concern. Concerning social policies, there was no significant development regarding labour law and health and safety at work. Labour inspectorates remain understaffed and unable to perform their tasks."<sup>29</sup>

Similar findings are present in previous Reports: "With regard to labour and trade unions rights, little progress was made. The fragmentation of the legal framework for social benefits and pension rights remains to be addressed. No significant steps have been taken to establish a State-level Economic and Social Council. There are no criteria or legal framework for the recognition of social partners at State level."<sup>30</sup>

Additionally, the Reports criticise high unemployment rates and "...a fairly large informal labour market and significant structural rigidities, such as the high rates of

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<sup>28</sup> European Commission (2013). Commission Staff Working Document, Bosnia and Herzegovina 2013 Progress Report, SWD (2013) 415 final, p. 18.

<sup>29</sup> Ibid., p. 37.

<sup>30</sup> European Commission (2013). Commission Staff Working Document, Bosnia and Herzegovina 2012 Progress Report, SWD (2012) 335 final, p. 19.

social security contributions and poorly targeted social transfers".<sup>31</sup>

The formal agenda therefore includes trade unions and labour rights. The activities and political interactions, however, show a narrower agenda. The Enlargement commissioner Štefan Füle and the Delegation of the EU in BiH serve as indicators of this tendency. The main focus in the interactions is on two issues: implementation of the European Court for Human Rights ruling on the Sejdic and Finci vs. BiH case;<sup>32</sup> and the future arrangement of competencies between the two entities and the State in the accession process.<sup>33</sup> As for the first topic, commissioner Füle expressed his concerns in his speech in the European Parliament in May 2013: "(Third,) sometimes we tend to refer to Sejdić-Finci as the only obstacle for BiH to submit the EU application. Well, non-implementation of Sejdic-Finci is the reason why we still do not have the Stabilisation and Association Agreement entering in force. BiH is not living up to its international commitments and we need to make it clear."<sup>34</sup>

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<sup>31</sup> Ibid., p. 25.

<sup>32</sup> The Court found that violation of Article 14, of Protocol 1 and of Protocol 12 of the European Convention on Human Rights, occurred by prohibiting citizens of ethnic origins other than Bosniak, Serb or Croat to enter the BiH Presidency. More at: [http://www.coe.org.rs/eng/news\\_sr\\_eng/?conid=1545](http://www.coe.org.rs/eng/news_sr_eng/?conid=1545).

<sup>33</sup> A *coordination mechanism* has been proposed, strengthening the multi-level power-sharing model, with strong role of the entities and parity between the three peoples.

<sup>34</sup> [http://europa.eu/rapid/press-release\\_SPEECH-13-441\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-13-441_en.htm)

A series of meetings between commissioner Füle and the leaders of the strongest political parties in BiH reveal a twofold default in the EU's practical approach: first, the choice to open an entire process at the level of political parties – not only social partners, but also the parliamentary and executive institutions are marginalised in that process, called by commissioner Füle a “high-level political dialogue”;<sup>35</sup> second, the two focus issues fall within the areas of minorities protection and institutional capacities respectively, but both reflect ethnic concerns about BiH – representation of the so-called non-constituent peoples (other than Bosniaks, Serbs and Croats) and separation of power between communities.

These activities have not been followed by any steps by which the Commission could offer assistance to social actors, regardless of the assumptions in the Progress Reports. However, the Commission did exercise pressure on CEE governments in order to foster the inclusion of trade unions and other participants of the social dialogue.<sup>36</sup> In the case of BiH, this stage of relations is perceived as premature for pressure in the area of labour rights and other social matters, other than interethnic and minority issues.

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<sup>35</sup> Media sources: [http://www.upi.com/Top\\_News/Special/2012/11/29/EU-seeks-Bosnia-reform-on-minorities/UPI-64011354165440/](http://www.upi.com/Top_News/Special/2012/11/29/EU-seeks-Bosnia-reform-on-minorities/UPI-64011354165440/), <http://www.balkaninsight.com/en/article/bosnian-politicians-schedule-another-meeting-on-rights-ruling>, <http://www.nezavisne.com/novosti/bih/Bh-sestorka-kod-Filea-nadogovoru-138447.html>.

<sup>36</sup> Avdagic, S., op. cit., p. 5/6.

## International and European cooperation – the case of the Confederation of Trade Unions in Republic of Srpska

Trade unions in BiH rely nevertheless on international cooperation. Although, without the country's candidate status, they cannot benefit from programmes such as PHARE or ACCESS 2000, they maintain formal contacts and participate in cooperation, capacity-building and exchange of experience internationally.

The Confederation of Trade Unions of Republic of Srpska represents an example of formal and declarative cooperation. Since 2001, the organisation has had meetings, exchanges, participated in seminars and has had members in training with various partners: the European Confederation of Trade Unions, the International Labour Organisation and national trade unions, like the Swedish and the ones in the Western Balkans region.<sup>37</sup> As the key outcome of such activities, the report for the period from 2009 to 2012 states: "For the last 20 years, the Trade Union has had extreme difficulties to have its movement recognised in this region, and, judging from numerous undertaken activities, as well as from visits of foreign delegations to our country, it became evident that this Trade Union fulfilled its task to have its existence recognised internationally."<sup>38</sup>

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<sup>37</sup> Confederation of Trade Unions of RS. Reports on international cooperation [http://www.savezsindikatars.org/medjunardna\\_saradnja.php](http://www.savezsindikatars.org/medjunardna_saradnja.php).

<sup>38</sup> *ibid.*, translated by the author.

Recognition from abroad may be a solid starting point, but this level of outcome reveals the lack of capacity to use international cooperation for a stronger impact on agendas and policies. On the other hand, without systemic assistance within the framework of the EU pre-accession a more significant role in this process was evidently impossible for trade unions. And, inversely, without the European integration framework, no sufficiently binding or convincing pressure could be directed to the agenda and, consequently, to decision-making in labour issues.

### **Conclusion: Trade unions in the enlargement process in BiH – how to seize the opportunity?**

As a pre-candidate State, Bosnia and Herzegovina has not reached the negotiating stage. The passivity of the trade unions is nevertheless already visible at this stage. Economic, social and political conditions are not favourable to trade unions in the country and any important policy impact is impeded by post-war and transition-related difficulties.

From the country's European perspective, the agenda has been set within the framework of the pre-accession process, with control over the issues in the hands of the EU, while implementation is the task for the BiH and entity authorities. With deeply rooted divisions, facing global crisis and European economic challenges, the country is not providing its own incentives for improved living standards that could be expressed and followed by further formal steps towards EU membership. On the

other hand, the EU does not employ strong political or economic pressure or a proactive policy towards BiH, placing stability and major ethnic representation issues high on the agenda.

The question of representation of the ethnic minorities (the Sejdic-Finci ruling) is currently the main preoccupation along with the institutional issues related to interethnic power-sharing in BiH (the coordination mechanism). The EU is thus focussing on an ethnic model, judging from the point of view of stability. Labour issues, on the other hand, fall within the area of social concern, and are also a possible source of instability. The trade unions in the country are far from influencing and benefitting from such an agenda.

This observation is not made as in order to lament the difficulties that the trade unions are facing as organisations. Rather, beyond the unions themselves, the perception above illustrates a failure to gain tangible improvements in economic and social conditions in Bosnia and Herzegovina through European integration. Without downgrading the undeniable importance of human rights and equality in BiH, it shows that an agenda set at the institutional and interethnic level misses important opportunities to foster visible outcomes. Indeed, the absence of an integrated, single European social protection model may cause problems in this respect. However, the EU can use labour standards and minimum requirements on the pre-accession agenda, without imposing ready-made solutions.

The evidence was pointed out of different priorities in the EU's approach at two levels: the formal account

of the EU's official position and the concrete political activities of the EU. While trade unions are mentioned in documents as neglected partners, pressures exerted on decision-makers in BiH focus on so-called high politics issues. The underlying idea that the time has not come to tackle labour rights issues in BiH in practice is questionable and can hardly be maintained by solid argument.

The task of providing double incentives – for accession, i.e. for the improvement of living standards – remains a top priority for the future of BiH. It is up to the dominant controllers of the agenda – the EU institutions – to prioritise labour protection in order to help achieve the essential goals of enlargement. On the other hand, without greater internal accountability of the political elite, external pressures can even become counterproductive. Any improvement in the internal-external synergy would require further capacity-building and stronger cross-level active links of support from the European partners to the trade unions in BiH.



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