



## **'USE IT OR LOSE IT!'**

How do migration, human capital and the labour market interact in the Western Balkans?

REPORT SUMMARY

# KEY ISSUES

- What is the impact of migration on the skills pool and their use in the Western Balkans?
- What implications will this have for their future economic development?
- How can we link the region's human capital development and labour market policies to the migration debate?
- How do health and ICT professionals move around?

## SHORT-TERM (CIRCULAR) LABOUR MIGRATION FOCUSES ON SECTORS

Hospitality



Construction



Agriculture



Transport



## TRADITIONAL HOST COUNTRIES

- Germany
- Austria
- France
- Sweden
- Italy
- UK
- Switzerland
- Greece

## EMERGING HOST COUNTRIES INCLUDING

- Croatia
- Slovakia
- Czechia
- Slovenia
- Bulgaria
- Hungary

## COUNTRY POPULATIONS AS OF 2020 (IN MILLIONS)



## PULL FACTORS OF EMIGRATION

- Better employment options
- Higher earnings prospects (wage differentials)



## PUSH FACTORS OF EMIGRATION

- Difficult transition from a socialist to a market economy
- Regional conflicts and fragmentation



## STRUCTURAL SHIFTS IN EDUCATION

- Enrolment in the education system: slight reductions in primary and secondary education
- Enrolment in tertiary graduation programmes: a significant rise in professions required internationally
- Quality of education: further improvement necessary especially in vocational training and higher education



## SECTORS THAT ABSORB MOST EMPLOYMENT

- MANUFACTURING & SERVICES: Serbia, North Macedonia
- SERVICES, MANUFACTURING: Bosnia and Herzegovina
- TOURISM & OTHER SERVICES: Montenegro
- AGRICULTURE & SERVICES: Albania



## 2010–20 NET EMIGRATION

- Bosnia and Herzegovina – highest
- Kosovo and Albania – medium (brain drain)
- Montenegro, North Macedonia and Serbia – lowest (brain gain)

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Prepared by Ummuhan Bardak, ETF, based on the [regional report](#).

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## 'Use it or lose it!'

### How do migration, human capital and the labour market interact in the Western Balkans?

The six Western Balkan countries (hereafter 'the WB6') are quite well researched in terms of migration, human capital and labour market issues. However, most of that research has focused on one topic and remained unconnected with others, thus missing the skills-related interactions among the three fields. Aiming to understand the impact of migration on the skills pool and utilisation in the WB6 and the implications it may have for their future economic development, the ETF research project 'Migration and human capital in the Western Balkans' brought together three areas under an integrated analytical framework.

How the characteristics of the labour markets and education systems affect migration flows, and vice versa, was the focus of the study. The project incorporated contributions from distinguished national and international researchers coordinated by the Vienna Institute for International Economic Studies (wiiw). During the project's lifetime of 2020–21, a series of studies were published: six country studies ([Albania](#), [Bosnia and Herzegovina](#), [Kosovo](#)<sup>1</sup>, [Montenegro](#), [North Macedonia](#), [Serbia](#)); one [regional comparative report](#); and three statistical papers, namely a macro-regional econometric study of the interrelationships, an estimate of net migration flows from the WB6 by educational group in 2010–19, and labour supply and demand estimates in the WB6 for 2020–30 under different scenarios.

This paper synthesises the findings from the above studies in a compact manner and discusses the main policy options and recommendations for policy makers at national, regional and international levels. The region's EU accession perspective is kept in mind throughout: accession negotiations with Montenegro and Serbia are already advanced, while North Macedonia and Albania continue to fulfil the conditions to open negotiations. Within this context, all six countries are part of several EU mechanisms and instruments to support their accession process both financially and technically, including the Instrument for Pre-accession Assistance (IPA) III and the EU's Economic and Investment Plan for the region. The citizens of the WB6 (except Kosovo) have also had visa-free entry into the Schengen Area since the end of 2009<sup>2</sup>.

However, there is a difference between full membership and the uncertain prospects regarding the likelihood of accession, as the latter has implications for domestic political and social developments, as well as the economic decisions of international companies<sup>3</sup>. Given the region's relatively small population – a total of 18 million people in 2020 – and the low fertility rates and ageing populations in all six countries<sup>4</sup>, the most prominent feature of the region from an economic point of view is its relative segmentation. This takes the form of small, fragmented political and economic units and entry barriers with regard to cross-border business linkages.





## What we already know

Emigration has long been an integral part of WB6 economies, and this has continued over the past three decades due to the difficult transition from a socialist to a market economy, combined with regional conflicts. By 2020 the stock of migrants from the region exceeded 4.6 million (a quarter of the total population); for comparison, Poland has a similar number of emigrants, but its population is double that of the entire WB6 region. The emigrant stock as a share of total population is very high by international standards, ranging from almost half of the population in Bosnia and Herzegovina and Albania to one fifth in Montenegro and less in Serbia. Despite some country differences, the EU15 countries (e.g., Germany, Austria, France, Sweden, Italy, UK, Switzerland, Greece) have traditionally hosted the largest stock of migrants from the region, while intra-regional mobility has remained low.

Better employment and earnings prospects continue to be the main pull factors of emigration, though recently better education and life prospects have gained importance. Emigration has affected both the low and the highly educated. Potential mobility (measured by intentions and actions to prepare for mobility) is higher among the highly educated in Albania, Kosovo and Bosnia and Herzegovina, while it is higher among the low and medium educated in Serbia, Montenegro and North Macedonia. The enrolment ratio of international students from the region is one of the highest in the OECD countries (close to 5%); this is also facilitated by the EU student exchange programmes. While contributing to human capital formation, the lower return rate of these students seems to be an issue in Albania, Kosovo and Bosnia and Herzegovina.

1. This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence – hereinafter ‘Kosovo’.

2. To be more specific, free-visa travel applied to Serbia, North Macedonia and Montenegro as of December 2009, while for Albania and Bosnia and Herzegovina as of December 2010.

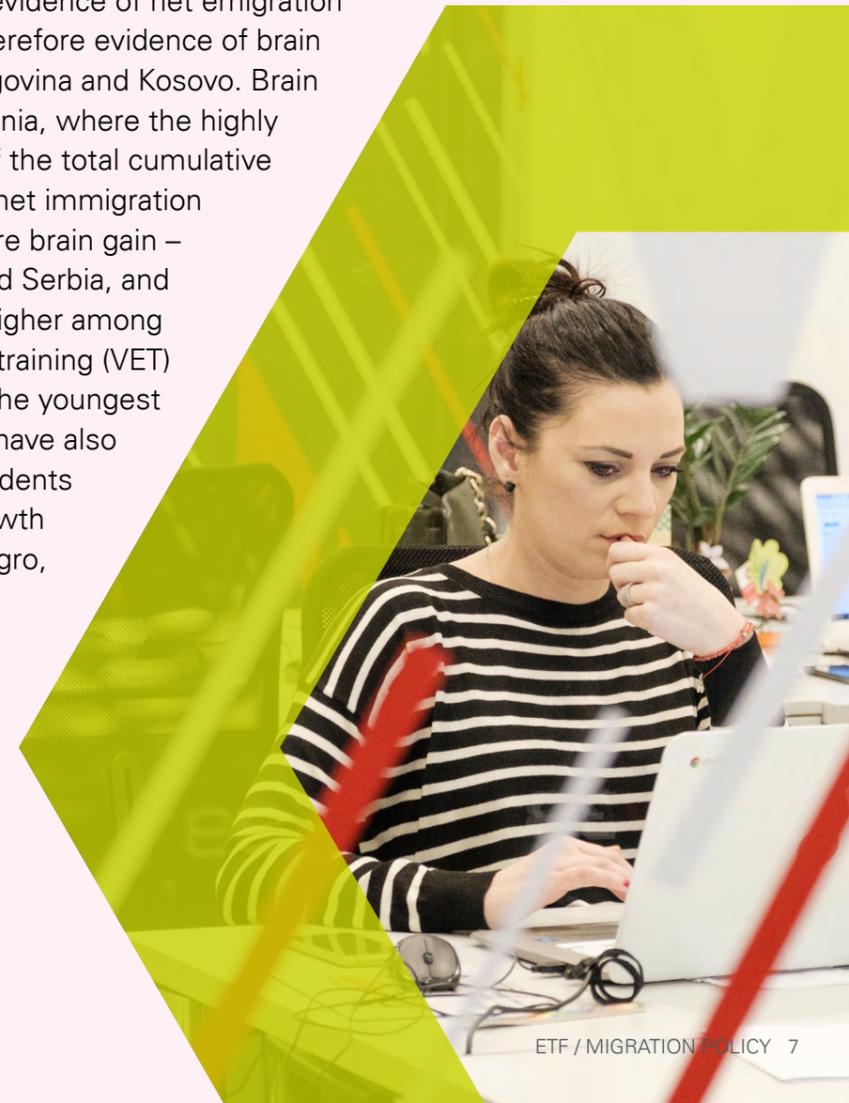
3. In comparison with the 11 countries of Central and Eastern Europe (EU-CEE) which joined as full EU members in 2004 – including Slovenia and Croatia that were part of Yugoslavia – the WB6 are missing the full advantages of EU membership: financial assistance, full participation in all EU programmes and, above all, the full institutional, legal and political anchorage that a definite prospect of EU accession (plus a foreseeable date) provided to the EU-CEE.

4. Country populations as of 2020 (in millions): Albania (2.8), Bosnia and Herzegovina (3.5), Kosovo (1.8), Montenegro (0.62), North Macedonia (2.1) and Serbia (7). The average number of children per woman has been below the replacement rate of 2.1 in all six countries.

## What is new in the ETF study?

The ETF research confirms the continuing net emigration from the WB6 during 2010–20, albeit with country variations: highest in Bosnia and Herzegovina, followed by Kosovo and Albania, and lowest in Montenegro, North Macedonia and Serbia. The main destinations have also changed to some extent: among the traditional destinations, Germany is continuing to recruit, and there have recently been increasing outflows towards the new EU Member States (e.g. Croatia, Slovenia, Slovakia, Czechia, Hungary, Bulgaria). Besides internal dynamics of low-quality/low-paid jobs, policy changes in destination countries have contributed to this trend. Migrants seem to be filling jobs that have been vacated by their own nationals emigrating to the old EU Member States. In these new flows, short-term (circular) labour migration has become more frequent, focusing particularly on sectors such as hospitality, construction, agriculture and transport.

The results of the ETF’s estimate of net migration flows by education level in the period 2010–20 indicate evidence of net emigration among the highly educated – and therefore evidence of brain drain – in Albania, Bosnia and Herzegovina and Kosovo. Brain drain is particularly significant in Albania, where the highly educated account for around 40% of the total cumulative outflow. In contrast, the study finds net immigration of the highly educated – and therefore brain gain – in Montenegro, North Macedonia and Serbia, and emigration from these countries is higher among secondary vocational education and training (VET) and general education graduates in the youngest age cohort. Serbia and Montenegro have also started to attract immigrants and students due to their sustained economic growth (e.g., the tourism sector in Montenegro, information and communication technologies (ICT) in Serbia) and the uneven quality of educational facilities across the countries.



## Migration and human capital

Over the past decade, the region has experienced an overall structural shift with respect to enrolments in the education system, tertiary graduation programmes and the quality of education. The changes have been characterised by slight declines with respect to primary and secondary education (reflecting the demographic decline), but with rising tertiary education enrolment rates in the region. Average years of schooling have improved in all six countries among both men and women, though the levels remain below those of other European countries. Tertiary education enrolment has experienced the highest increase in Albania.

Participation in VET programmes has been high (almost three quarters of all students) in the WB6 (except Albania), but most VET graduates continue to higher education. The increased tertiary enrolment has been facilitated by the proliferation of tertiary degree programmes, often offered by newly established institutions; this has, at times, come at the cost of quality. Quality improvement of education at all levels needs to continue further. Overall, WB6 countries have improved the accessibility and quality of education programmes, in part backed by EU financial support. Nevertheless, further improvements are necessary, particularly in secondary and higher education (including VET).

The structural shifts in tertiary graduation programmes have been towards programmes that adjust to international demand (such as 'engineering, manufacturing and construction', 'information and communication technologies' and 'health professionals'), not all of which are appropriate for the domestic labour market needs. Structural shifts in the educational structure are also reflected in the employment structure. The educational structure of the working-age population reflects a general improvement over the past decade, with a clear shift towards those who are more highly educated. Differences across the region are also evident, with Serbia and Montenegro in particular emerging as having a better-educated workforce, while Albania seems to be in the worst position.

Education is an important success factor in the labour market, which is evident in all WB6 countries. Employment rates correlate with educational attainment levels and tend to be higher for those with tertiary education: employment rates for this group have improved more than for other categories, especially in Albania, North Macedonia and Serbia. A breakdown by gender indicates historically higher educational attainment of men than women in the WB6, but over the past decade there has been progress in increasing the share of women who are highly educated. In 2019 the share of women with tertiary education exceeded the share of men with this level of education, a difference that exists across the region.



## Migration and labour markets

Labour market performance improved in all WB6 countries in the pre-Covid period, this being visible in declining unemployment and inactivity and increasing employment rates over the past decade. Improvements over this period have varied from one country to the other, and migration is partly responsible for this structural improvement in the region's labour force. Job creation has not been equally distributed across countries: most of the new jobs were recorded in Serbia in particular, followed by Montenegro and North Macedonia, while a decrease was recorded in Bosnia and Herzegovina. The Covid-19 pandemic has created a further setback to this situation. Hence, labour underutilisation is still dominant in the region (particularly for younger age cohorts and women) despite the improvements, a sign of structural deficiencies in the interaction between education/training and the labour market, and a low demand for skilled labour in the economies.

The ETF research demonstrates that the structural composition of these economies and underpinning sectors often define the job types and earnings prospects available, which in turn shape the migrant profiles in each country. An important issue is the structure of the private sector, which is predominantly made up of small and medium-sized enterprises (SMEs) (especially family businesses), and an extensive share of employment still consists of informal-sector activities and self-employment. Most of the activity is in the distributive trade sector and other services, while high value-added activities are underrepresented among SMEs. The better-educated labour force faces an inefficient deployment of their skills, pointing to mismatches between skills in demand and supply. For most medium- and high-skilled workers, the public sector remains the most attractive due to its wage premium and job security, which in turn negatively affect the growth of the private sector.



Employment in manufacturing plays an important role in only three economies (Serbia, North Macedonia, Bosnia and Herzegovina), while a large share of employment in Montenegro is in private sector services (tourism) and a very large share of employment in Albania is in agriculture. Part of this development is explained by foreign direct investment (FDI) inflows coming to the WB6. The allocation of FDI across sectors is quite different, with Serbia and North Macedonia (and to some extent Bosnia and Herzegovina) attracting such investments into manufacturing and Montenegro into the tourism sector; in other countries, investments have mostly taken the form of large infrastructure projects in the energy sector (Albania) or in real estate (Kosovo).

These country variations largely explain the different patterns of employment and migration, i.e., higher unemployment and inactivity, which generate more migration, and migration which undermines further the functioning of labour markets. The mismatch between skills acquired in the education system and those needed in the private sector has become a pressing issue in the WB6. While migration has served to ease labour market disequilibria in the region and facilitated the exchange of knowledge and know-how, it has also led to new labour and skills shortages in certain sectors (e.g., tourism, construction, transport, manufacturing and repairs). The education system has not been sufficiently successful at adapting its curricula to skills demanded in the labour market, as pointed out by both employers and employees.

## Understanding triangular interrelationships

The findings of the ETF's regional econometric study show that migration is often the result of a range of internal dynamics vis-à-vis main destinations (e.g., wage differentials, human capital stock, labour underutilisation, poor work conditions, extensive skills mismatch). The three policy domains – education, labour market and migration – are in a permanent interaction, which is dynamic and multidimensional. The results of these triangular relationships can be either detrimental or beneficial and can be influenced and changed over time by policies. A policy action in one domain will have repercussions for others. If the policy responses from the three areas complement and positively influence each other, this might create a 'virtuous circle'. If policy areas fail to respond and instead undermine each other, this leads to a 'vicious circle'.

A vicious circle tends to occur when investment in human capital fails to meet the needs of the labour market. When highly skilled individuals leave, it can generate shortages domestically. That can lead to decreased investment and less innovation in technology. It can also create problems with productivity, competitiveness and attracting FDI. The circle can become virtuous with better coordination among sending and destination countries, and by engaging the diaspora. This requires coordination in several areas, notably the supply and demand for skills, and policies for education, the labour market and migration. If managed correctly, emigration can spark cross-border economic initiatives; new trade links; the transfer of knowledge, skills and technology through FDI; and domestic investment, job creation and human capital development. It can also improve employee-employer skill matches, and, ultimately, reduce the need for emigration.

The ETF study uses the health and ICT sectors to delve further into these aspects of the triangular relationships and to illustrate different results. Over the past decade, there has been an increasing emigration trend among both health and ICT professionals from the region. In the health sector, several factors – such as low public investment, lack of job openings and large wage differentials – have encouraged health workers to emigrate in search of higher wages and better-quality jobs. Thus, insufficient job creation and poor working conditions in the sector have led to a vicious circle. In contrast, the ICT sector has expanded rapidly (more so in some countries than in others), accompanied by a rising demand for particular skills both at home and abroad. Here the three elements have fed off each other to fuel a virtuous circle of development: despite existing wage gaps, migrants have created links with professionals back home, encouraging more foreign and domestic investment. Some of them have returned home to start their own businesses, helping the integration of these countries into international value chains.

The ICT sector shows how human capital development, migration and employment can work together. With more human resources concentrated there, combined with moderate emigration, the region might very well emulate the example of India and that country's leapfrogging. Some people will emigrate. Others will stay at home and help build the domestic infrastructure. Policy makers can push things along by adjusting education and training systems to help match the skills of graduates with the needs of employers and by providing support for foreign and domestic companies willing to establish or expand operations. To avoid pitfalls, sending and destination countries need to improve coordination and invest in joint skills development. They need to think about the labour market demands on both sides. They should also encourage curricular mobility for professionals.

A future projection of labour demand and supply by skill groups under various scenarios has predicted increasing labour and skills shortages in the WB6 by 2030. Even in the case of a baseline scenario (if everything carries on as it is now), the projection points to emerging labour shortages for all skill groups by 2030 in Albania, North Macedonia and Serbia. Similarly, Bosnia and Herzegovina will experience shortages in low- and medium-educated labour and excess labour among highly skilled workers in the same period, while Montenegro will face shortages in low-educated labour but excess labour among the medium and highly educated. Finally, Kosovo will start to experience labour shortages only after 2030 (mainly among the low and highly educated) but faces substantial and persistent excess labour among the medium-educated. Within this context, the recent inflows of transit immigration into the WB6 could be a potential opportunity in the future in terms of demography and skills provision for the region.



## Policy responses

Migration should not be judged as unequivocally good or bad, as there are both positive and negative aspects as well as a wide range of intermediate outcomes. For most of the individuals involved, migration means more opportunities in terms of income, career, skills and know-how gains and connections. That is the very reason for sustained migration flows, despite ever-increasing international restrictions. For sending countries, the picture is more complicated. Here, the situation could tend towards either virtuous or vicious circles of development, depending on the structural characteristics of the economy, the level and composition of the human capital stock, and the functioning of job markets and policy frameworks.

Against this background, the ETF report reviewed the responses from the relevant institutions in the WB6 in three policy areas, namely migration, education and training, and the labour market. Because most emigrants from the WB6 are young people, youth employment policies (e.g., the implementation of a youth guarantee scheme), active labour market programmes to reduce unemployment, sectoral support to increase the creation of high-skilled jobs, and support for entrepreneurship and self-employment have all become very relevant for addressing migration. There have been many attempts and strategy papers to improve migration management and encourage diaspora involvement, but coordination and coherence with other policy fields is missing.

The response from the education side has so far been limited to the issues of recognition and validation of foreign qualifications, and much more could be done in relation to skills of migrant flows. A number of initiatives tackling migration, human capital formation and employment – and specifically the interaction between these – have been identified, mostly funded by international or EU Member State donors. The most common example is the development of international skills partnerships to facilitate international migration between sending and receiving countries, although these are limited to a few pilot projects (mainly initiated by Germany). In addition, some private (international) educational institutions have already expanded their educational offerings in some professions in the WB6 – e.g., Dekra Academy and Heimerer College, given the high demand for health professionals. This indicates the agility of private providers in taking up opportunities in skills development for mobility in third countries. However, a strong orientation of education curricula towards international markets has its drawbacks and must be monitored carefully.

Given the complexity of the triangular relationships and the many different topics covered in the ETF study, a wide range of policy recommendations and actions could be considered by policy makers as well as by international organisations supporting the development of the region. The key issue is the need for constant coordination and coherence among those policy fields at national, regional and international levels. The main recommendations presented here have a regional perspective and are grouped under the four policy areas below. While the first three recommendations primarily target national and regional policy makers in the WB6, the last one addresses the role of the EU and its Member States. This is because the EU has been, and still is, the main destination of migrants from the region, while its migration and enlargement agenda (with all the mechanisms of pre-accession and exchanges) is largely shaping the mobility patterns and skills pool in WB6 countries.





## Recommendation 1.

### Narrowing the gap in economies and labour markets between WB6 countries and the main destinations

- Implementing a sustained development strategy and expansion of economic activities to create more skilled jobs. This would lead to a structural shift in the economies from labour- to skill-intensive activities and would counteract skilled emigration and retain a skilled labour force.
- Addressing the gap in economic prospects between urban and rural areas and improving the attractiveness of peripheral regions (infrastructural connectivity, governance, business support, facilities for health and education/training needs) with sustainable economic activities.
- Continuing to attract FDI to upgrade industrial structures in the region, as it has played an important role in the catching-up processes of the new EU Member States. This requires using comparative advantages (geographical position, cheap labour, cultural proximity, etc.) and going beyond the specialisation in manufacturing that has characterised the new EU members.
- Providing a strong push towards digitalisation and future technologies to increase opportunities for skilled employment. This will require specific sets of skills, further investment in human capital and an increasing supply of ICT professionals, leading to young people working for foreign companies without the need to migrate, and attracting more companies to invest in the region.
- In addition to the above steps, economic leapfrogging through 'near-shoring' in the light of recent developments after the Covid-19 pandemic. As some EU companies are transferring parts of their supply chains to geographically closer locations, this would accelerate the region's integration into European value chains and increase the demand for higher skills in the WB6.

## Recommendation 2.

### Adjusting employment and skills development policies to create a highly productive workforce for functional labour markets

- Regularly monitoring labour markets for their labour and skills shortages and/or surpluses and integrating education and labour policies into an overall industrial strategy. This requires systematic enterprise surveys to identify their skills needs, systematic analyses of labour force survey datasets over time, especially at sector level, checking excess/shortage supply of specific educational groups, and efficient intermediation of jobs with the right skills.
- Increasing efforts to upgrade labour and skills supply according to current and future demand for skills, both domestically and internationally. This requires strong activation policies (especially for women and low-skilled workers), higher quality and relevance of training, and a systematic offer to allow young people access to employment, apprenticeships and continuing education.
- Increasing nationwide and regionwide investment in digital and green skills, ICT skills and online work platforms. Firms in the region are currently mainly engaged in low value-added functions and higher-skilled labour is necessary to move towards higher value-added functions. This requires a strong push to produce a critical mass of labour with digital and green skills.
- Providing strong support to new business start-ups as a source of employment, with incentives focused on promising economic sectors and easy start-up conditions. The gap in employment conditions between the privileged position of the public sector and the private sectors of the economy should be closed, partly with support policies for dynamic segments of the private sector and partly by dealing with non-meritocratic recruitment practices in the public sector.
- Continuing to work on qualifications and qualifications systems, including recognition processes to facilitate mobility and integration into the labour markets, whether this is towards the EU, or on return to the home country. Improving the level of professional qualifications and allowing adjustments in wage structures to support jobs could help to discourage emigration among young people.





## Recommendation 3.

### Proactively managing migration and tapping the potential of emigrants/diaspora

- Implementing a cross-institutional approach in managing migration, including all stakeholders (public, private and non-governmental) in migration governance at national and local levels.
- Investing in more systematic and structured databases for collecting and analysing the types of labour migration, and for the periodic investigation of labour deployment, vacancies and bottleneck occupations at the sectoral and occupational levels.
- Fostering higher levels of engagement among the diaspora and promoting the return – including ‘virtual’ – of migrants abroad and the diaspora. This requires a sincere ‘welcoming’ policy framework for the reintegration of returnees (short-term migrants, permanent migrants and the diaspora), and fostering cooperation with members of the scientific diaspora.
- Ensuring a proactive role (for the WB6) to strengthen cooperation with the main destinations, particularly Germany and the new EU Member States. Possible actions include negotiating bilateral agreements to support migrants abroad, favouring temporary mobility and exchange schemes, and implementing joint skills development programmes for mobility in sectors with higher needs.

## Recommendation 4.

### Securing EU support to the WB6 to extend the skills pool and further human capital accumulation

- Welcoming the integration of WB6 economies in regional and cross-border European production networks, to be accompanied by the transfer of know-how and the skills formation of local people as part of international investment packages in the region.

- Increasing the support for brain circulation and the return of students/researchers and academics, considering the enormous opportunities created for young people by EU exchange programmes. However, this will require a dramatic increase in such mobility schemes together with some new instruments and mechanisms that motivate and encourage the subsequent return of students/researchers, scientists and academics to promote brain circulation.
- Promoting mobility in both directions and encouraging an inflow (even if temporary) of foreign/European academic and scientific staff into the WB6 to transfer their know-how and experience to the local educational institutions and research infrastructure. This also requires further investment and upgrading of the research infrastructure for innovation (e.g., scientific laboratories, opening of new regional centres of excellence).
- Encouraging EU Member States and WB6 countries to embrace and develop EU Talent Partnerships to coordinate their efforts to combine different labour mobility schemes with skills development and capacity-building schemes, e.g., further training/skills acquisition with the involvement of educational institutions from both sending and receiving countries.

To conclude, there is no reason that WB6 countries cannot, in due course, follow the example of the successful catching-up processes of the new EU Member States. At a more general level, this requires improving infrastructure and institutional governance, avoiding a back-slide towards political instability and regional fragmentation, and using all the advantages of geographical location and the accession perspective more proactively (i.e., financial and technical support in pre- and post-accession). The vital conditions for maintaining momentum are anchorage in the EU accession process, political stability at both national and regional levels, regional integration, and investment in the region’s human capital.





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