

**Regional assessment report
from a social policy perspective
concerning
the national social security systems
and the related reform plans
in South-Eastern Europe.**

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September 2006**

INTRODUCTION

This assessment has been carried out on the basis of the annexes 1, 2, 3, 4 and 6 of the national descriptions of the present and possibly future social security systems in Albania, Bosnia and Herzegovina, Croatia, Kosovo, the F.Y.R.of Macedonia, Serbia and Montenegro. On the basis of an examination of all these country materials from the specific angle of social policy this regional assessment report has been drafted.

The task assigned to the social policy expert concerned the issue “whether the social goals to be achieved by the distinct social security schemes can be achieved by these schemes; and whether these schemes serve the policy goals intended. The social policy expert will also examine whether the social policy goals for the future pursued by government and other national relevant actors are consistent and what actions these goals may require. Moreover, the social policy embedded in the current system and in the plans of change, will be examined upon their euro-compatibility.”

These assessment report will include proposals for in-depth examination of issues common to more than one country of the region. Upon the feed-back to be given by the national contact experts the draft assessment report will be adapted and later on presented at a conference to be held in November.

In order to optimize discussion our findings and proposals have been grouped around 13 themes, being:

- Constitutional and legal regulation of social security;
- Administration;
- The context of unemployment and poverty;
- Personal scope;
- Benefits in general;
- Pensions (old age and survivorship);
- Incapacity to work (short term and long term);
- Unemployment (benefits);
- Health care and care;
- Social assistance and welfare services;

- Financing;
- Inspection and judicial protection; and
- The historic legacy and the democratic challenge.

We stress from the outset that it is by no means our intent to give an over all overview of all policy issues in all the concerned countries nor even in the region. We just want to explore, on the basis of the accessible documentation, which issues common to more than two states in the region, may call for a closer examination by the experts of our team. We shall of course not duplicate studies and investigations which have already been carried out. Also issues which can be seen as specific for the region, but which are shared by many more countries of Europe will not be in the focus of our attention, as good information and knowledge is already available elsewhere. In a way, we look for the 'niche' of these issues which are specific to more countries in the region, and which, in our opinion, have until today not been addressed in a sufficient way. Of course, we aim at providing useful information, knowledge and solutions to the concerned South-Eastern European states, not to make a synthesis of things already known by all involved.

We would like to stress that single countries may as a consequence miss out some issues that affect them particularly. Within the framework of our Programme these may be addressed via another channel.

It is also important to stress that it is not the first task of the social policy expert to make policy choices on behalf of (the governments and other policy makers) of the concerned states, but rather to provide them with the necessary information and a number of alternatives to make the right choices for their country and develop their own policies. Moreover the social policy expert can shed a light on the preconditions which need to be fulfilled in order to carry out the policies announced by the policy makers.

1. CONSTITUTIONAL AND LEGAL REGULATION OF SOCIAL SECURITY

1.1. Constitutional imperative

Whatever policy proposals are being made, it will be important to keep in mind the constitutional norms governing the state. This goes obviously for the distribution of competences between the central and other levels of the state, but is also true for provisions dealing with the social character of the state, the institutional guarantees (such as e.g. social insurance, private social welfare or marriage) and the social fundamental rights. In some countries the constitutional judiciary may be quite active also in the social security field. Recent experience of some central and eastern European countries has indeed shown that the constitutional judge may intervene on quite crucial moments in the reform of social security, in order e.g. to maintain some 'acquired rights'. It may be appropriate to do some pro-active research in order to foresee what constitutional constraints can be expected.

It has to be observed from the outset that the constitution not seldom is more generous than the legislation (e.g. giving right to health care to all, whereas system only recognizes it to workers and their families)

The constitutional framework may also be important for the way the social security is organized. This could e.g. point at involving some private actors, such as the Church, in social welfare.

1.2. Good legislation

Much attention has in a recent past been given to drafting adequate social legislation. Yet this often has resulted in a number of separate statutes, which sometimes co-exist with remains of older legislation. These different statutes and lower legislative acts are not always using the same terminology nor following the same logic. Therefore it would be advisable not only to fill out legislative gaps, but also to codify the dispersed social security legislation. This seems to be a prerequisite for good policy, new legislation and the good implementation of it

1.3. Internal and external consistency of legal framework

A codification, the useful it may be, does not overcome another important flaw of social security legislation in the region today, i.e. the mismatch between the wording of the legislation and its implementation. Due to all kind of reasons, not the least budgetary constraints, governments feel sometimes constrained to limit the social rights which the statutes recognize to the socially insured (e.g. re indexation of benefits). The principle of the rule of law, corner stone of the Council of Europe and the European Union, needs to be maintained, also in the social security area. It may thus be appropriate to make less ambitious, more realistic legislation. Anyway, it

would be important to detect the main areas in which social security legislation and implementation are divergent in an important way, such in order to remediate such an unacceptable situation.

Not only the internal consistency of social security law and its implementation calls for our attention, but also the interplay between social security law and other branches of law. Here again different statutes and lower legislative acts often use divergent terminology and follow different logics. Yet some divergences may be rather disturbing, especially if they occur with what is done in labour law, family law and tax law. Not only the terminology and the logics are best co-ordinated, also the policy goals; take e.g. the need to promote the interrelationship between social inclusion and employment policies

2. ADMINISTRATION

2.1. The organisational structure of the administration and its interaction

All countries have their own constitutional framework, in which the organization of social security administration has to fit in. This may lead to a rather complicated administrative structure as a response to a multi-layered governmental structure. But also if this is not the case, the administrative set up for collecting, managing and disbursing social security money is often quite complicated. The result is a fragmentation of responsibility and staff over many administrations, producing overlaps of competence and sometimes also gaps.

Whereas the complexity of social security administration may not always be avoided, as a result of constitutional provisions or policy decisions, the lack of co-ordination and even communication between different social security administrators can never be justified. Many countries need more and better communication and co-ordination between the various administrations. This is also true at the top, at the ministerial level, where the prime minister probably needs to take up the challenge of liaising his various ministers with responsibilities in the social security field. If this is not done explicitly, the result may be a de facto co-ordination by the minister in charge of the money, not seldom the minister of finance. The latter may however not always be the most appropriate to set out social policy goals.

The lack of coordination or even communication between administration is especially disturbing when the country's social security is in a reform process, creating an enormous risk for the reform itself. It will be very difficult to raise public and political support if the ministers look themselves in various directions.

2.2. The collecting side of the administration

Although an important and indeed often not an easy task, the collecting of social security contributions is often left as one of the many responsibilities of a series of social security administrations, not always equipped or motivated to carry out the collecting function in the best possible way. The collection of taxes and social contributions could be streamlined through one payment for taxes and social security charges to the tax department of the Ministry of Finance, which would then allocate it to the various destinations and funds. It is also possible to keep social security contributions separated from taxes, concentrating the collection of all social security contributions in one social security administration, having the necessary means to perform their duties in an optimal way.

2.3. The distributive side of the administration

We do not intend to review here all aspects related to the administration of getting the right benefits to the right persons; merely some elements concerning the distributive side of social security administration which may call for our special attention.

First the procedure in which an applicant is being recognized or denied the status of beneficiary, or in which other benefit related decisions are taken, should be resulting in a written decision and motivation of it. Today applicants are sometimes merely informed orally about decisions which concern them. This is not in line of what is needed for a decent protection of the socially protected.

One could furthermore recommend to work with one-stop shops putting social security, social welfare and employment services together in one place, near the people where they live. Now applicants have sometimes to address themselves to a number of social security administrations, all in charge of a different social benefit.

The process of benefit delivery itself requires also our attention. Sometimes benefits are being delivered through the postman handing out cheque and cash amounts to the homes of the beneficiary. A provision may even be charged for this service, which is paid by the beneficiary. The postman and post office also exercise some marginal control (e.g. concerning the identity of the recipient or the mere fact that the beneficiary is still alive).

The alternative of an arrangement with the banks (including a possible bank of the post) may be considered for long term benefits such as pensions: these benefits can be assigned electronically to individual bank accounts. When applying for a benefit, the beneficiary has to select a bank. Accordingly that bank accepts to open an account. In this way a cost efficient distribution of benefits for the pension administration can be combined with an increase in the reach of a developing bank sector. This supposes of course good understandings with reliable banks. In no way social security money should serve to subsidize banks.

2.4. The fund management side of the administration

Until now very little attention has been paid to the management of the funds collected in order to be distributed. Indeed, huge amounts of money pass the social security administrations after being collected and before being disbursed. It is important to establish who bears the profits (and possible losses) of very short term investments of these amounts.

It goes without saying that also the management of the funds in capitalization or funded schemes calls for the necessary legislative and other guarantees. This can still be improved, but has already been addressed in the concerned countries.

2.5. The role to play by non-state actors

As a consequence of the moving to a more market oriented society and not seldom following in this the advice of international institutions, a more important role than before has been assigned to all kind of non-state actors in the area of social security.

This raises a number of questions both of theoretical and practical nature. Just a few of the latter.

Time has come to examine the cost effectiveness of a multiplicity of social security administrators and providers (e.g. of pensions of 2nd pillar or additional health care). It needs to be investigated what the cost of leaving administrative tasks in the hands of non-profit and/or commercial actors is. This cost should be put in balance with the advantages of competition in the social area.

The perspective of a possible adhesion to the European Union, also calls for special awareness of the consequences of leaving the administration of voluntary social protection arrangements with the same institutions as those administering state social security. In other words, it seems important to examine in the light of EU competition law, the voluntary schemes offered by social security institutions, in competition with private actors (from within and abroad).

Finally, if we stress the need of a qualitative improvement of social security administration and its staff, it is obvious that the same goes for those non-state actors to which social security tasks have been assigned.

2.6. The issue of federalism and decentralization

Some competences, tasks, financial responsibilities have been decentralized or even transferred to local authorities, especially in field of social assistance and health care. How to make that the system functions indeed in order to be as close as possible to the serviced populations, and not to make that locally corruption and deviation of funds is the consequence?

If competences are given to local authorities to make an own policy, they should also have the financial means which are adequate. Decentralizing or transferring competences, without the financial means that go with it or the real competence to collect these means, is a swindle.

On the other hand, one has to make sure that one is clear about the common standards one wants to maintain throughout the whole country. One should also realize that maintaining these standards may create an unbearable burden to some entities which in turn will need the solidaristic support of the others. In other words, if one leaves competence locally and also the collection of the necessary funds locally, this may enhance more self-responsibility; but this also means that, unless there are some solidarity mechanisms, the poorest entities will be confronted with the worst financial basis and the highest amounts of benefits to be paid.

It may therefore advisable to take advantage of each other's experience within the region, as well as to learn from the experiences of regionalization and decentralization in EU countries.

2.7. Quality of administrative staff

The improvement of the staff of social security administrations should be an important concern. Sometimes the formal qualifications of the staff are in order, but the personnel may still lack the necessary attitudes to run a modern social security system.

Quite often only people at the highest level, say at top ministerial level, have an understanding of the direction of the policies carried on. The lower staff, both centrally and 'in the field' often does not possess the necessary skills and knowledge to effectively implement the reforms. Nor do they have the abilities needed to plan strategically. Negotiation and analytical skills are often weakly developed throughout the social sector administration. Relevant management skills and capacity to actively promote policies are also mostly lacking. Raising the quality of the staff is therefore of a crucial importance in the reform process.

This could be achieved by training on the spot; also raising the educational level of administrators and workers in social protection is to be pursued. This implies the development of a whole set of training and educational offers, which may include the creation of new educational tracks. One should be aware that the effort should certainly not concentrate on the highest levels only, if one is not to lose connection with those who have the keys to the implementation of any policy decided at the top. Although study trips and visits to colleagues of other countries of the region and Europe may be useful, the offer should be accessible to as many of the staff possible, and should thus include an offer on the local level, preferably in the local language.

Establishing a regional 'think tank' on social administration and policy formulation and delivery including cross-border issues, could also show to be useful. It would allow the responsible persons and their staff to reflect together upon issues they are all confronted with and to work out new, adequate and innovative solutions; and to do such in an informal non-hierarchical setting.

2.8. Integrity of all actors

The integrity of various actors in social protection can often still be improved. It ranges from those in charge of delivering the benefits and turning a blind eye on the fact that the beneficiary has passed away, a medical doctor receiving side payments for services he/she owes to the socially insured to those who defraud large amounts of money by not denouncing larger companies not paying in the due social security contributions. It would be wrong to deny the existence of all kinds of corruption in social security administration, although the extent of this phenomenon may be very different throughout the region. Yet a constant attention has to be paid everywhere to the combat against corruption and the maintenance of the highest integrity standards.

3. THE CONTEXT OF UNEMPLOYMENT AND POVERTY.

3.1. Unreported workers and unreported work

Be it in different intensities, but all countries of the region are confronted with very high numbers of unreported workers and unreported work, undermining in this way the proper functioning of any social security system. This remark is made in nearly all reports concerning the social security of the countries of the region; yet very often the existence of a large black, grey or informal economy is often approached as a fate, as something that hardly could be dealt with. It has to be clear that we do not share this opinion; on the contrary, we believe it is time to address frontally this problem, which otherwise will operate as a cancer in all social security system, the well construed it may be.

In order to address the problem, we have first to identify it better.

First there is the black work: companies not reporting their workers, the profits they make etc. The phenomenon may appear in areas where other employers play the game according to the rules; it will also appear in sectors where nearly no one respects the law and where the law and its implementation are rather hazy: the so called informal sector of economy. Even companies that do normally pay contributions, often organise themselves to pay less than the amount due by adopting the practice of under-reporting the wages paid to their employees. Sometimes this is called 'grey' work.

'White', 'grey' and 'black' work may even co-exist with one and the same worker. Indeed, e.g. as a consequence of the fact that the average wages for fulltime work even do not suffice to provide the worker and his/her family with a decent standard of living, they take additional jobs, often in the informal economy.

It is obvious that the existence of such black/grey/informal economy is in the first place undermining the financial situation of social security, as contributions which should come in, do not. But the consequences are even more far reaching. The concerned workers, will often not be socially insured or under protected as a consequence of the non reporting of their work. Moreover it also has secondary effects. In contrast to the formal economy e.g. , labour turnover is high in the black economy which reduces the amount of on the job learning, which, together with the lack of formal training reduces the skill base for the labour force.

It is obvious that the phenomena of unreported workers and unreported work are intimately related to the bad economic and employment situation: it is both a consequence and a cause of it! It also makes the getting of the right picture difficult, e.g. in relation with the number of the unemployed or the self-employed people.

It should be clear from the outset that to remediate the persistence of unreported work or unreported workers, one will not suffice with improving the inspection services or a better collection of the contribution of taxes. In fact any policy developed in the social security area, not in the least the law making, has to keep in mind the need to, if not to pursue as a goal to fight black/grey economy.

3.2. Poverty and unemployment above acceptable level

Whatever the extent of the black/grey/informal economy in the country may be, all countries of the region face a number of unemployed and poor people which are far too high by any international standards. Of course the two phenomena are related; as work is the best remedy against falling into poverty. Yet it would be erroneous to think that having work, would be sufficient not to fall into poverty. This may be due to a series of factors, such as insufficient wages or even not paid out wages regularly. Moreover, one should realize that in some countries the number of unemployed may even raise in the future, as still a work force surplus is present in those areas of economy which have not fully made the transition to a market economy.

Providing people with jobs under conditions of freedom and dignity was and still is the main challenge of any public economic and social policy.

Poverty measurement and analysis studies have been carried out in all the countries of the region. High numbers of the population living below the established poverty lines could be established. And if people are asked whether they feel being poor, the subjective poverty rate may reach 80%!

Yet time seems to have come to leave the measurement and analysis studies, to investigate upon the measures taken to combat poverty: what about their efficiency in reality?

3.3. Employment strategies

As employment is so important, let us examine in which way the ‘employment strategies’ adopted by the countries of the region do affect social security.

By ‘employment strategy’ is meant an articulated view on the goals of employment policy, the timeframe in which this has to be done, and the clear actions to reach these goals. It is more than ‘labour market policy’ which encompasses so-called passive (e.g. unemployment benefits) and active labour market policies (e.g. training and retraining).

Realising that employment growth will in most cases first and foremost proceed from the growth of economic activity, let us examine hereafter some components of employment strategy which are related to social security:

- activation of benefits;
- job creation incentives for employers;
- introducing more flexibility in employment;
- promotion of self-employment;
- promotion of public works and workfare;
- improvement of mechanisms to make offer and demand match; and
- training and education.

3.3.1. Activation of benefits schemes

There has been written quite a lot about the ‘activation’ of benefits schemes, whereby the traditional social security systems were often labelled as ‘passive’. Whatever be of this literature, which is certainly not specific to the region, it is important to assess that the ‘activation’ of benefit schemes in the region, mainly has meant in practice the making more strict of eligibility conditions, the shortening of the duration the benefits are to be paid and the decreasing of the amounts of the benefit over time. It remains however to be seen whether these interventions do more than save money, i.e. contribute indeed to getting more people to (registered) work.

We however believe that the activation of benefit schemes goes further and may indeed require a far going restructuring of the benefits schemes and their administration. We shall give examples of this later, e.g. when dealing with the need of more flexibility.

Very often the concern is expressed that the benefits should not be too high so as to keep people idle instead of pressing them to look for employment. In order to avoid a poverty trap, the level of benefit should remain bellow the wages earned by a large proportion of the workers . Yet the problem may be that these wages themselves do not keep people above the poverty line! Avoid the unemployment and poverty traps and still guaranteeing what is necessary for a decent living, that seems to be the diabolic challenge!

Some seek a solution in decent benefits, but for a shorter time. It remains to be established that such is indeed an effective activation tool. Moreover, what about those trying, but not finding a job afterwards?

3.3.2. Job creation incentives for employers

In order to fight unemployment, it may be a good idea to stimulate employers to enrol more workers. It remains to be seen however how these job creation incentives, such as job subsidization programs, exemptions in paying contributions for the newly employed, etc. work out in the environment of the region which is of interest to us and which is characterized by huge unreported work.

An interesting idea may be to transform part of the severance pay when one becomes unemployed, into an ‘employment voucher’ for the employer who accepts to engage the unemployed for a decent and registered work of a certain duration.

Of course, the main challenge remains to tailor social security in such a way that job creation and entrepreneurship (especially in SME’s) are not hindered by exorbitant financial and administrative burdens, faced when hiring and registering additional workers.

3.3.3. Flexibility in employment

It has already been observed by many that the regulation of labour is still in many country of the region taking the full time log term labour contract with one employer as the standard to be strived for. Other forms of employment, such as part time jobs, jobs in more than one capacity (both employee and self-employed e.g.), teleworking etc. , are excluded or at least, dealt with as exceptions. If more flexibility is to be achieved, and through it more (registered) employment, it will be necessary to adapt labour legislation in order to give all kinds of more flexible forms of employment a decent place. One will also have to reflect about the (amounts of the) severance pays, the preconditions of dismissal, the duration of the dismissal notices etc.

What is of interest to us here, is that also the social security system should abandon its preconception of a 'normal career' of uninterrupted full time employment during some tens of years. The ways of connecting the entitlement to benefits to a number of years, months or weeks performed, need to be adapted to a more flexible employment reality. The rule existing in some countries of the region that the tax and contribution bases are for individual persons set at minimum levels which are based on full time employment is a hindrance for development of part-time jobs. In general, all social security systems should be scrutinized in order to explore how they can better be adapted to all kinds of registered work, other than full time employment with one employer. This will also contribute to bring flexible forms of employment which today do not fit in, to the surface and make them registered work.

3.3.4. Incentives for self-employment

Many countries advocate incentives to make people self-employed and in this way transforming them from unemployed to (self-employed) workers.

Sometimes unemployed desiring to start self-employed activities can benefit of the lump sum payment of a certain period of unemployment benefits of the future.

Experience with similar measures in other European countries calls however for caution with this kind of measures. Not only can they lead to fraud, but moreover the number of successful new self-employed may be rather low in the middle-log term. In the meanwhile they may have however pushed out of business sound established self-employed. When the new self-employed goes bankrupt after a while, it may create a greater social tragedy than his previous unemployment, effecting the whole family patrimony. It would be appropriate in this stage, to pay closer attention to the pros and cons of this kind of measures.

Need it to be said, that when people are pushed to engage in self-employment, this can only be a valid social policy, if self-employment itself is the object of a decent social protection scheme. In other words turning (unemployed) wage earners to self-employed, presupposes a decent and adapted social security system for or open to the self-employed. Identification of self-employment with some non protected 'informal' sector of activity is not acceptable.

3.3.5 Creation of public works and workfare

It remains surprising if not shocking to see huge amounts of unemployed go hand in hand with huge infrastructural and other needs still facing the countries of this region that is still bearing the scars of the past. Many buildings were destroyed in the wars, roads are in a pitiful condition, etc.etc. Very often the money lacks to order the repairs, reconstructions etc. to professional building companies. Yet many agree that important public works are desperately needed. Why thus not use the available unemployed workforce to realize important and needed improvements to the infrastructure? The unemployed may to that effect be hired at low wages by the public authorities or even be set to work under the prevailing benefit schemes as a form of workfare. It seems to be that the introduction of more market economy is blocking such initiatives; yet it would be interesting to see how Western European states, all with a market economy, coped with the destructions after World War II. In any case, we believe that the states of the region of our interest should show less reticence to set up major plans of improving infrastructure employing or at least using the workforce of many unemployed.

Public work programs and workfare are also suited for a smaller scale approach at the level of local communities, where they can especially be targeted to the employment of the socially most vulnerable groups. As to the tasks to be performed they could be preferably chosen amongst those for which there is no and in a foreseeable future there will be no funds available to meet them through the private market. Provisions are to be made to guarantee additionality and to avoid substitution of regular work places. The activities should not be in competition with profit driven companies. For the same reason, it may be preferred to restrict the local public works / workfare initiatives to areas such as public utilities, environmental protection, maintenance of public utilities infrastructure and humanitarian, social and other activities. Where such workfare programmes had been set up, they sometimes were stopped shortly after their introduction due to a lack of funds. Yet, such measures needn't be too expensive, e.g. when they 'pay' the workers with some wage equivalent to the benefits previously received; the local communities providing the necessary materials.

An interesting species of such workfare programmes consists in putting at the disposal of the poor (unemployed) of rural areas, a piece of land owned by the state, in order to be cultivated by the person who would otherwise be depending upon public assistance. These people can also be provided with some starting capital. Afterwards they should be able to self-help out of their cultivation. The land could be given for a number of years, e.g. 5 years, in order to make meaningful agriculture possible and get the concerned people really out of their precarious state.

We leave it open whether these public employment programs should result in registered socially insured work as such, or, should be performed as a kind of counter performance for receiving an unemployment or social assistance benefit. Whatever option is taken, the system should be complemented with a fair and effective sanction system for those potential beneficiaries who refuse to participate in it.

A public works or workfare approach has mostly to be implemented locally and it requires good cooperation between the local stakeholders: amongst others to employment offices, representatives of the employers in the public sector and in the

private sector (to avoid competition), and the trade unions. The first responsibility for organizing and managing a workfare system often lies with the municipalities. Central government could provide matching funds for the initiatives arising locally.

3.3.6. Improvement of mechanisms to make offer and demand match

It can be somewhat surprising to see how much attention, especially of international advisors, is paid to the improvement of the labour mediation services. Very often one is focusing on upgrading of the mediation function, on the improvement of the work procedures for collection of vacancy information by the employment offices, on strengthening job search assistance programmes, etc. This can be understood if the low supply of vacancies (in the formal sector) are being considered; however, the huge amounts of available unemployed persons seems to require less improvements in the mechanisms to make offer and demand match better, the offer exceeding so many times the demand.

As job vacancies are scarce, it is important that information on them is really accessible to all job seekers; clients are often able to look for a job without direct intervention of the staff of labour mediation, if they can have full access to relevant info. It should be avoided that vacancies do not transit via labour mediation, but also that labour mediation would operate non objective selections concerning the people who will be informed about these vacancies.

The intervention of labour mediations agencies could be especially effective in cases where surplus employment is going to be terminated as a consequence of the restructuring or closing down of (large) enterprises or as a consequence or reduction of the public sector. In such case it should be possible to have the concerned workers (or part of them) immediately employed elsewhere, avoiding that they would emerge to unemployment. It would at the same time make those necessary restructuration more easily accessible and in this way also speeding up the economic recovery.

3.3.7. Training and education

It has already been said over and over: good education and training are a key to employment. This is certainly the case also in the region of our interest. Here it is especially important to set up training and educational tracks addressing the future needs of the country, and not so much directing intelligent youngster to make as much money as possible in the shortest period of time.

Also hybrid offers may be considered, consisting in vocational training, general education and part time work. Such formulas could be interesting especially for young people not interested in continued education, who otherwise, when stopping to go to school would nearly for sure end up unemployed.

3.4. Special target groups

Poverty and unemployment are common futures for all countries of the region. However among them, and within each of them important differences can be established. These difference run along divides such as town/country, valleys/mountains, unaffected areas and war hit zones, areas with a good public infrastructure and other, etc. It is important to take those internal differences in consideration when developing programs to combat unemployment and/or poverty.

There are also groups of persons specially hit by unemployment and poverty, such as children and very old persons, the youngsters who do not get access to the labour market, long term unemployed, lower skilled workers. Preserving traditional solidarity contexts, targeted programs of poverty relief and employment, should address the most vulnerable groups. It goes without saying that always the help should be directed to enable the concerned persons and their families to self-help.

Two groups require furthermore our special attention in the region:

- the local minorities, with e.g. the presence in all countries of Roma people;
- the displaced persons and refugees, who moved as a consequence of the Yugoslavian wars.

Of course, there is an important overlap between these two, making things only worse for the concerned.

The delicacy of developing positive action programs and support targeted to minority groups, and e.g. to the Roma should not be underestimated. Whereas they may suffer from considerable (at least de facto) discrimination, doing something to improve their situation should not be interpreted by the majorities of the countries as extending privileges to them. The key words here should be 'inclusion' and 'mainstreaming'. Affirmative action should be developed in such a way as not to deteriorate inter-ethnic relations ('do no harm' approach). Well intentioned foreign advises may otherwise have perverse effects.

The internally displaced persons and the refugees, proceeding from the wars which recently hit the region, are very often those who suffer most from deprivation and unemployment. Here also it is important to have an inclusive and mainstreaming approach. The perspective of once returning home should certainly not be abandoned, but at least in social protection one has to have the courage to face reality and not confine the concerned to a poor and idle *provisorium*, in the expectance of return once. Practically speaking, this will mean a readiness to deal with these people as an integral part of the own country and to try to provide also them with registered work and decent social protection.

4. PERSONAL SCOPE

4.1. Citizens and permanent residents

Citizenship is sometimes still required to get access to some social insurances (especially health care insurance) as well as for family benefits and social assistance and access to social services (kindergarten, housing). The citizenship conditions will not only have to be reconsidered in the perspective of an adhesion to the European Union, but also has less desirable social effects. We are convinced of the fact that the replacement of the citizenship requirement by that of a legal and stable residence could reach the same desired policy output, without the negative consequence of social exclusion the citizenship requirement may have. In this context we should not forget that also foreigners established in the country pay direct and indirect taxes, as well as social security contributions!

4.2. Workers and self-employed

The fact that now a large number of persons are excluded from the social security protection should be properly addressed.

First of all there are those working without being registered (black economy/informal sector). They do not contribute to the solidarity system, so they have nothing to expect from social insurance. It is logical, but may confront the country in a later stage with enormous problems in social assistance and welfare. Both for the concerned persons, the social security system and the country, it is essential to transform as much as possible unregistered into registered work. This will mean also invent creative approaches, allowing for a smooth transition of enterprises and workers from the informal to the formal economy.

As we have pointed out earlier, there is also a non unimportant problem of exclusion of certain forms of flexible work from social insurance. Also here provisions will have to be taken to include workers, active in atypical forms of work, into the social insurances.

Often no social contributions are raised from the remuneration for work performed under so-called civil law contracts. Reportedly, they are sometimes widely used to evade regular work contracts. It is suggested to restrict very much the conditions under which exemption of social contributions is allowed

More in general, the self-employed are often 'enjoying' unclear and inadequate social protection systems. Sometimes they are assimilated to wage earners and confronted as a consequence to a legislation not adapted to their specific reality. Other times they are abandoned to the 'informal sector' and to the untrue belief that they are risk takers and should thus be able to take care of themselves. Here an important legislative work has still to be undertaken to provide the self employed with an adapted and adequate social protection, which possibly could also be opened up to all those who now perform small works in the informal sector.

4.3. Documents required

One thing is to belong to the personal scope of a social insurance, social assistance or welfare arrangement, another thing is to prove that one is. Here people may be confronted with the difficulty to prove once citizenship or place of residence. This seems a particular point of concern in the region, especially for already socially weak groups, such as Roma, internally displaced and refugees.

Many Roma lack personal documents and sometimes even citizenship. The Roma encounter difficulties in accessing documents including birth certificates, personal identification cards, documents related to health insurance and social aid, passports. The lack of one document can lead to the impossibility to get others and access social benefits or registered work

Informal settlements (especially of Roma and other displaced persons or refugees) may constitute a problem as far as the identification of the place of residence is concerned.

4.4. Illegals in the region

The social security position of foreign persons staying/working illegally in the country, which constitutes a large category of all the migrant persons, should also receive the attention it deserves.

The easy reasoning is: people illegally staying and /or working in the country, place themselves outside the law and thus also outside the social security system. They should not be or work here, so they cannot claim any social security entitlement. Recent evolutions and research has shown in the European Union that this reasoning cannot be seen as valid anymore, not from a human point of view, nor even from a legal point a view. It would be important that the countries in the region of our interest would also define the rights that even illegals and undocumented foreigners could claim in their country. In this way a real social problem could be addressed, without having to extend all social security rights also to those who are illegally staying and/or working in the country.

This is all the more true for a category of persons which in fact is neither legally nor illegally staying in the country, i.e. the sometimes important groups of 'tolerated persons', persons without title to stay or work in the country, but which the national authorities decided not to expel from the country neither.

4.5. The emigrants

When speaking of the personal scope of application of the social security arrangements, it is also relevant to remember that the countries of the region very often 'lost' important numbers of citizens, sometimes young and valid workers, to the emigration into Western European countries. Sometimes these emigrants were authorized to come to the Western countries, sometimes they were tolerated to stay,

often their immigration was illegal. In the latter case it means that these emigrants work in the black economy of the Western countries. It is not excluded that once they get old or work incapacitated they return to their country of origin; before that they may also have to return to the region of our interest, as a consequence of a worsening economic situation in the countries they emigrated to, or a more strict policy and control on illegals and black work in these countries. When they thus come back, they may present an important social problem to the countries of the region, which are already confronted with important social and economic challenges. The question should therefore be raised whether the social security systems of the Western Balkan countries should not offer a voluntary social insurance to their emigrants, or even compel to join the national social insurance when the emigrant is not insured under a national social insurance arrangement of the country of immigration.

Such a voluntary or compulsory coverage of citizens who emigrated, could allow the concerned to constitute some social insurance record at home, and would bring in for social insurance now some very much needed additional money.

5. BENEFITS IN GENERAL

5.1. Logical structure of benefits

As a consequence of the historic development of social security systems, it may and does all over Europe, indeed often occur, that there lacks to be logics in the establishment of replacement percentages, amounts, and alike throughout the various social insurance and social assistance schemes. However if one wants to make the system more transparent and the policy goals pursued with all kinds of differentiations, also effective, it is important that the various benefits relate to one another in a logical way. This is what sometimes is called the ‘need for streamlining the benefits’.

The logical structure of a social security system also commands that the same loss of income or the same cost should not be compensated twice. This should be avoided by good anti-cumulation rules.

5.2. Credited periods

Most social insurance schemes in Europe do not take into account only effectively worked periods, but assimilate to them also other periods, that are then registered as if work was performed during these. Such ‘credited periods’ may include periods of study, of military service, of illness, of maternity etc. These ‘credited periods’ present however the danger that it doesn’t cost to introduce them, but that the bill is being presented once the social risk materializes, in the first place once the pension is to be calculated and paid out. It is important to realize which periods are credited and what their impact will be; this inventory may lead to reconsider some of them.

5.3. Waiting periods

Sometimes people who are socially insured and for whom contributions are being disbursed, are not immediately entitled to the benefits of the social insurance. They first have to wait a number of weeks, months etc., (in which they do pay contributions) before they are also entitled to the benefits. We speak of ‘waiting periods’; they are motivated by the fight against fraudulent social insurance and are common e.g. in the health and unemployment insurances.

It appears to be that the ‘waiting periods’ valid in the countries of the region of our interest are sometimes quite long and in being so exceed the necessary. This may even lead to conflicts with relevant provisions of international social security instruments. A review of the waiting periods may thus be appropriate.

5.4. Validation of beneficiaries

Persons may be entitled to social security benefits, such as old age or survivor pensions. Depending upon the way of delivery of the benefits, it appears not to be exceptional in the region that the payment of benefits is not discontinued immediately when the beneficiary dies. Nobody of the family may be interested in reporting the death of the pensioner and no direct link between the civil registry and social security may exist. Delivering postmen and other paying agents may turn a blind eye and continue to pay to the usual relative cashing the benefit ...or, worse, keep the benefit for him/herself. It has to be stressed that more in loco controls are not an effective way to deal with the issue as it may be less sensitive to go and check whether certain persons are really still alive.

Of course, what has been said concerning the death of the beneficiary, is also true for other changes in the situation of the beneficiary and his/her family which may effect the social security entitlement. Here too one will have to look for a creative solution. A special problem in this respect is the verification of the composition and size of the household, e.g. for social assistance purposes; quite soon a conflict with privacy protection law may surface. In general, the relation between social security and its control mechanisms, on the one hand, and the privacy protection law, on the other, may need to be examined more closely, taking into account the specificities of the region.

6. PENSIONS (OLD AGE AND SURVIVORSHIP)

6.1. Pensions in general

Pensions usually have a double function:

- smoothening lifetime income and consumption;
- redistribution and protecting from poverty.

It may be important to distinguish both finalities of pensions and to regulate accordingly.

Often pension systems know minimal and maximal amounts. The minimum will be targeted to guarantee persons who have worked most of their lives, a decent pension above the poverty line, even if they earned little with their work before. One should pay attention though that minimal pensions do not undermine the reporting of the full income out of work and lead to under-contributing to the system: as the minimum is always being guaranteed! If income related pension arrangements are set up, one may reconsider minimal pensions in these arrangement and provide for another non contributory pension for all people over pension age.

Also maximal pension amounts may be questionable if the maxima are not set high enough (and the possible contribution maxima also); indeed if the system wants to remain sane it is important that the middle income classes stay interested in participation. If thus the maxima are set at a too low level, these classes may have to complement the state pensions with private pensions, disaffecting this way the public system. The easily made next step is to call for even lower state pensions and more individual pension provision. The first victims of too low maxima may then very well be the lowest income classes!

Another issue to be examined is that of the pros and cons of allowing a pensioner to work and the conditions under which such is done.

6.2. Old age pensions

Much has already been written on old age pensions in the region and actually in the whole of Europe. Many countries of the region already developed important reform plans in the area. This is why we would like to concentrate on some more punctual issues.

First it is clear that the establishment of the pension age, is an issue which is debated in many countries. We would only like to make the remark that the need to raise the official pension age should be seen in function of a number of factors which may be different in the region as compared with some Western European countries: the presence of many young unemployed and many older workers used to the work environment of a former economic system; the fact that many of the not retired elderly do receive already another social security benefit, etc.

Another topical issue we would like to mention relates to the special rules for people in dangerous, difficult and harmful to health occupations or in occupations where

after a certain age one cannot anymore perform successfully (pilots, opera singers). Rather than maintaining existing privileges, one should invest in safety at work and encourage job mobility. One is not born opera singer, nor needs one to stop all professional activity once the opera career is over!

Finally, the level of possible basic pensions requires our attention. In case the introduction of a universal basic pension is considered, the amount of it should be anchored to a real indicator, such as the poverty level. Downside is that high income earners and participants in the former income related system feel that they are being under compensated. Winners are those who couldn't work before.

6.3. Survivor pensions

Unfortunately, amongst other things, as a consequence of the wars, the region still has many more widows than normal. Survivor benefits still constitute an important source of income for many. All this doesn't take away that a widow(er) pension can be perceived as an anachronism when society clearly expects both partners to work for their living and that of their family. It deserves therefore attention to examine the feasibility of abolishing the survivor pensions for people who after the moment of the abolition become major of age e.g. In other words the survivor could be abolished for all persons born after e.g. 2006-18. Over a period of some fourty years the survivors pensions could in this way smoothly be phased out.

6.4. Second and third pillar pensions

Many countries have in the past years opted for one or the other three pillar approach in pensions. The first pillar then consist of the compulsory state pension and is the basis upon which other pillars can build. The second pillar is a collective arrangement and usually funded, it may be compulsory or not. The third pillar usually indicates individual private pension arrangements.

The first pillar usually is operating through repartition, although recently it can also incorporate a capitalized, funded part, which in reality is to be situated somewhere in between the first and second pillar (first plus pillar)

In so far people have a choice as to the pension institution to take care of their compulsory second (and sometime also first plus pillar), it would be interesting to see what is guiding their choice. Freedom of choice without good information is indeed a game of chance. Should social security force people to gamble? What information should in any case be provided? What are the best practices to be followed?

Even more interesting is to check whether the persons who are expected to take out voluntarily a second or third pillar pension arrangement, did actually do so. Because if this is not the case, it may confront the concerned countries with huge problems in the middle long future.

Anyway one has to see, that the creation of fully funded second (or first plus) pillar schemes is likely to undermine the financial situation of the first pillar, as part of the contributions are redirected from financing the first to the second (first plus) pillar. This phenomenon should be looked at more closely in the relevant countries.

7. INCAPACITY TO WORK (SHORT TERM AND LONG TERM)

7.1. Short term incapacity

Relatively little attention has been paid up until today to the social income replacement in case of short duration incapacity to work (sickness). Very often the employer performs a crucial role in the management of the corresponding income replacement. This is fine as long as the employer does so with own funds; from the moment he can use social insurance money for the purpose, the danger emerges of all kinds of abuses. When he can deduct the paid sickness benefits from the over all contributions due, it makes a decent bookkeeping of social security contributions very difficult; if he is in charge of verifying the reality of sickness , he may even try to bridge periods of weaker economic performance by having part of his work force on sickness pay, etc. It may be important to re-assess the current social security approaches related to short term incapacity for work.

7.2. Invalidity

Not so much attention has been paid to the reform of invalidity or disability pensions yet. Nevertheless we would like to focus on the definition of the risk and the conditions and assessment criteria.

7.2.1. Conditions and assessment / activation

Although sometimes using similar wordings the concepts of long term incapacity to work, invalidity or disability, often stand in the region for different realities than in Western Europe. In the region invalidity is indeed sometimes defined a status one qualifies for or not (no partial invalidity being recognised). Once the status is gained, it is in practice very often impossible to loose it, although the legislation might suggest otherwise. As a consequence employment of the partially disabled and rehabilitation may not get the attention they deserve from a social policy perspective.

The possibility of reforming also this area of social security in depth, modernizing it and building in reasonable differentiations and activation measures, should be seriously considered. Only then the introduction of all kinds of incentives for employers to hire partially incapacitated workers, seem to make sense.

Attention should also be paid to the issue of assessment of the invalidity of the self-employed; now far too often the specificity of self employment in this context is being disregarded.

7.2.2. Compensating for what?

When talking about invalidity pensions we can also raise the question what should be compensated for. The loss of income capacity for sure; but is a compensation for purely bodily damage (still) to be included when establishing the invalidity pension (except perhaps for the victim of a labour accident or professional disease)? Compensation for the need of assistance/care by third persons may be better taken care of by an appropriate care arrangement than by a percentual increase of disability benefit.

As we shall come back to later on, the fact that the invalidity was caused by a war and the recipient is deserving national gratitude or recognition, should not be disregarded, but should in the first place not be compensated for by the general invalidity scheme.

8. UNEMPLOYMENT (BENEFITS)

8.1. Who is unemployed? Who gets an unemployment benefit?

We have stressed the importance of the phenomenon of unemployment already before. Notwithstanding the importance of the number of unemployed, there seems to prevail a certain confusion as to who is unemployed under social security law in many countries of the region.

To start with it seems sometimes rather theoretical to establish that is unemployed the person who has no gainful employment whereas he/she would like to have one, as the control over the labour market is often very weak, some informal activities hardly considered as a job (although they may be quite profitable) and self employment not always clearly identified. Moreover, the concepts of unemployed and of beneficiary of unemployment benefits are very different. Unemployment benefit recipients may of course run out of benefit because exceeding the maximal benefit duration. But sometimes people will register as unemployed, without them having the ambition to enter into (registered) work; they then do so in order to have e.g. the right to social health care insurance. This may, amongst other things, create an exaggerated administrative burden with the registering employment office. New labour market entrants are often also excluded from benefits, which may not provide them with an incentive to actively seek a (registered) jobs.

8.2. Disposition to report

When people do not seek a job actively or turn down offers of suitable work, this is often in the facts not being sanctioned, notwithstanding sometimes very strict legislation.

Employers de facto do not inform labour exchange of vacancies nor when these are being fulfilled. People who start a business or take up a job are not reporting to have done so to the employment office and sometimes may even continue to take up unemployment benefit. Obliging employers to transfer all information could increase their workload and could create one more incentive not to report work and workers to social security. It should be examined how a swift information flow between the employers and the social security (and especially employment) administrations could be set up, in such a way that employers get also motivated to full cooperation.

9. HEALTH CARE AND CARE

9.1. Covered persons

Today the countries of the region know social insurance schemes for health care. These schemes are having a categorically defined personal scope: in the first place the (registered) workers, but also other groups such as persons in receipt of a social security pension or other benefit, even other persons, such as registered unemployed persons not in receipt of any benefit. To these categories should be added the depending family members, such as spouses and children at least. Some people remain outside the social insurance system, such as unregistered workers who cannot acquire entitlement through a family member upon which they could say to depend.

A very large part of the population is in one way or the other benefiting from social health care insurance; notwithstanding the rather complex organization of the social insurance leading sometimes to important administrative burdens concerning the delivery of certificates of belonging to all kind of identified (and socially insured) groups.

We can therefore agree with the suggestion to undertake a strategic review of the health insurance systems in the countries of the region with a view to moving over to a tax-based system of health finance with universal health coverage to avoid the phenomenon of diminishing access to health care services due to unpaid health insurance contributions and in order to minimise the administrative costs of providing health care.

Attention should also be paid to the financing of the social health insurance of all those not contributing directly to the insurance. Today the contribution duty may be taken over by e.g. the institution paying out the pension or other social benefit, but quite often also state is in charge of compensating for all these cases through a yearly subvention. In such case the state may sometimes refrain for budgetary reasons to pay the appropriate amounts creating in this way immediately a problem for the equilibrium of the social health insurance scheme. We tend for this reason to prefer the state to intervene (directly or through other social security funds) as a debtor of contributions rather than as a subsidizer.

9.2. Defining health care packages and the quality of the health care

The quality of health care provision in the public sector is often poor and important investments would be needed to upgrade the health care infrastructure; also medical staff and nurses would often need to be paid more, also in order to avoid them requiring 'informal side-payments'.

The financial means being restricted and the wish to provide all (socially insured persons) a decent basic health care, makes that often the idea is emerging of distinguishing between a compulsory 'basic package' of health care and an optional

additional insurance. Defining what should and should not be in the package isn't however an easy task and raises questions which are debated both throughout the region and in the rest of Europe.

Where health care is covered by a categorical health insurance, it is important also to address the question what happens with those who are not socially insured. Are they to pay the full cost of care? And if they cannot pay for the cost, who will settle the bill?

It may also be that the non-insured as well as the better off socially insured prefer not to be treated in the social/public sector, but want to purchase the services and goods they need on the (health care) market. Private insurance companies may offer private policies to pay some of these. What about the regulation of this 'health care market', which cannot be dealt with in the same way as any other private market? Should everything which can be offered on the private insurance and health care market also be tolerated? What relations to establish with the social/public health care and its social insurance?

Also the appropriate use of co-payments requires closer scrutiny as research in Western Europe has shown that co-payments often hit exactly those groups of patients (the very poor) which should not be effected, whereas the richer do not adapt their health care demand in function of the level of co-payments.

The role of the family doctor and of preventive health care has often to be upgraded and supported in a better way. How to make such is done in a cost effective way?

All these questions should get proper attention.

9.3. Care

All over Western Europe we see the emergence of social care insurances, dealing with the need of people who cannot fully take care of them selves anymore (loss of autonomy), although then not being 'ill' as such, but simply handicapped or very old. The Western European states decided to introduce care schemes because the usual approach spread over various schemes (allowances in invalidity schemes, special pensions, health care arrangements etc.) did not allow for the most efficient cost effective comprehensive approach. It may be useful to examine whether this new approach would not also fit the countries in the region.

10. SOCIAL ASSISTANCE AND WELFARE SERVICES

It goes without saying that the way social assistance and welfare services are to be set up, has to take into account what we said in relation with the important unemployment and poverty phenomena in the region, which we dealt with in chapter 3.

10.1. Type of assistance and welfare

A distinction can be made between benefits for persons capable of work but with limited resources; and benefits for needy persons unable to work (disabled; frail elderly, one parent families with child under 3 etc). It may be appropriate to make both the benefits and the demands for the first higher than for the second. More specifically persons capable to work (fully or partially) should be encouraged to do so; this means that social assistance should not operate income tests which take into account the full income out of registered work. Indeed, by allowing people on social assistance to keep some of the money they earn through their work, they will be stimulated to follow a path which may lead them to self-help through income out of work.

In practice, discretionary one time benefits are sometimes very important, yet one should try to avoid to get into a situation where social assistance operates in a too discretionary and ad hoc way. Even for one time social assistance benefits, rules can be established at a central and local level.

Policy makers have to keep furthermore in mind that sometimes, investing in social infrastructure may be more effective or appropriate, than distributing social assistance benefits. Much will depend upon the circumstances and the possibility to empower the poor to move to a situation of self-help.

10.2. Philosophy of assistance

As was already touched upon earlier, the main principle of social assistance should always be to empower the beneficiaries to get out of their situation of deprivation and exclusion into a situation they can take care of themselves, preferably through participation in the working process and in society as a whole.

Social assistance is to provide a last safety net; it should never undermine existing solidarity mechanisms, such as the solidarity within the family or of the Churches. Yet one should neither presume the existence of private solidarity arrangements, when they simply do not exist. This is especially important for some weakest segments of poor, like deserted women, run away children, etc. Social assistance is to preserve the human dignity of every person and family.

That any civilized state has to consider it as its task to guarantee everyone on its territory the possibility of a life in dignity, does not imply that all efforts to meet that

commitment have also to be performed by public agencies. Indeed, we should consider the mixed welfare economy, in which also private actors play a role.

10.3. Meeting the real needs

If social security, especially social assistance and welfare are to meet the real needs of the excluded, two issues require our special attention: the danger of subjectivism or arbitrariness ; and the non take up of benefits.

In social assistance and social welfare, the minima to be provided and the conditions for qualifying are often left to the local authorities. Sometimes this is met by a lack of accurate and public information about the chosen approach. From the side of the beneficiaries there may emerge a tendency to try and profit as much as possible from the public authorities. The state and local agencies also often lack the capacity of controlling sources of income, formal or informal; public administration is weak and staff poorly trained. All that leads sometimes to mismanagement of social assistance and welfare, not getting at those who need the help the most and abused of by some, better informed and connected persons.

Research in the region confirms the existence of a non-take-up problem. A considerable number of poor appear not to take up the advantages of social programs, due to a variety of reasons, such as a lack of information, a lack of a permanent address (so e.g. for Roma), a lack of skills relating with red tape, or geographical inaccessibility to service providers. An additional problem is presented by poor refugees and displaced persons who often do not have the right to basic financial transfers until they are granted citizenship or a permanent title to reside in the country.

Both the danger of subjectivism and the problem of the non-take-up need to be taken seriously. Best practices of countries who experienced similar problems in the past, but could overcome them since, could be examined and lead to the development of systemic approaches of these problems, adapted to the specificities of the region.

11. FINANCING

11.1. Contributions

11.1.1 Lack of payment

As we have seen before it is not unusual to refrain from registering workers or work and evading in this way taxes and social security contributions.

Employers sometimes also fail to pay the insurance contributions on behalf of their (registered) employees as they face financial difficulties. These insolvent employers may even fail to pay the wages of their employees. This may lead to workers not paid (nor employed) anymore by their employers, but neither laid off; simply they are waiting until money and work returns

Not registering or not paying the due contributions is obviously undermining any sound financing of social insurances, both directly through a lack of contributions and indirectly because the loss in received tax money. This is especially problematic in a situation where the percentages of income tax and contributions are already considered to be at their maximum and the social security system is not excessively generous. Any progress in the financial state of health of social security has thus to proceed from an enhancement of the contribution basis.

11.1.2. Structure

Some special attention should be paid to some structural aspects concerning the (collection of) social security contributions.

It is important that as much as possible the contributions are levied on the total real income out of work of the socially insured. Working with maxima contribution levels, can be justified in some cases, but it should at least be considered whether it would not be better to do away with caps in the benefits, even if the principle of proportionality could be adjusted in a progressive way. In other words one might want to examine the opportunity of doing away with maxima both at the contribution and benefit side, in order to reinforce the proportionality principle, be it that the last € of contribution is not bound to result in an as high return in benefit as the first €.

Also minimum contributions deserve special attention; they may be useful in cases of very low paid jobs or when the income out of work is low and hard to control. Yet one should avoid to set minimum contribution levels (e.g. for some unemployed) which in fact become the 'normal' contributions, also of people having obviously an income way above the minimum. If a minimum contribution is used, it may be good to relate it to the normal contribution rate on the minimum wage (or a fraction thereof) or to the normal contribution on an income equal to e.g. 2/3 of the average wage.

If a person is working in more than one employment, it should also be preferred to calculate the contributions (and benefits) on the total income out of work in all jobs, and thus not job by job. This could stimulate the desired flexibilisation of the labour market.

Social insurance contributions should be based on the actual wage paid and not on a minimum reference wage as is presently the case. It should also be considered to introduce a cap on the social security contributions.

It may be advisable to consider the introduction of social security contributions on income replacement benefits of social security, as some Western European states have done in a recent past. In order to avoid unemployment traps, a contribution percentage equal to that on wages can be taken as a starting point.

In general the level of contributions and the assessment of the contribution basis should get special attention when dealing with (social security schemes for) self-employed. All too often these are established in a rather simplistic analogy with those valid for wage earners.

Two final points of concern should be mentioned, one specific to the region, one of a more general nature, but certainly having great relevance for the region.

When considering the future of taxes and social security contributions, as well as the needs to be covered now, it is not unimportant to realize that the situation may worsen, not only as a consequence of economy set backs. Today there is an important inflow of money from abroad. This proceeds from emigrated nationals as well as from foreign persons stationed in country; plus there is the donors money. The inflow of money could stop when the diaspora would be forced to leave the Western countries where they work, and return massively home; in such case it will be crucial to make that they take with them their savings and invest it in the own country. Also the end of financial flows from all kinds of donors may jeopardize the sustainability in the long run of reforms (or aspects) of it, introduced recently.

The second point to bring forward relates to the introduction of alternative sources of financing social security. We have the impression that some countries of the region are rather reluctant to introduce creative, alternative sources of financing social security, although the difficult financial situation their social security system, the high amounts of unregistered work and workers and the already high income tax and social security contributions call for a more creative approach. As such alternative sources, which are already discussed or even introduced in countries of the European Union, we can mention: earmarked levies on all kinds of products (alcohol, cigarettes, cars etc.), social VAT, levies on sales of land, on inheritances, contributions on the turn over rather than on the profits etc.

11.2. State subventions

Social security expenditure is often an important fraction of total government expenditure. Because of bad budget situations, sometimes legal dispositions e.g. concerning indexations, are not being applied. We have already observed that the rule of law is opposing such ad hoc behaviour; if the legal norms (e.g. relating to

indexation- are putting a too big strain on the budget, it is better to change the norms, than to simply set them aside 'provisionally'.

11.3. The expenditures

It goes without saying that if one tries to keep the finances of the social security in order, one should not only look at the income side, but also at the expenses. These should be kept within reasonable limits. Yet one should take into consideration that in some areas more money is really needed. Let us mention e.g. the need to pay better the health care providers and other health workers, in order to keep them away from asking all kinds of side-payments of the patients.

One of the worse enemies of a sound financing of social security, is beyond any doubt inflation. Inflation makes that even when calculated in a good way, contributions may lose their real value once they are transformed in benefits some later.

11.4. Funded schemes

When a funded scheme is set up, the idea is obviously to invest the money in order to be able to give a better return than in the case one would simply operate a pay-as-you-go system. This return depends however upon the performance of the investments, and thus upon the kind of investments made. These may be rather 'safe' (with low return) or rather 'risky'. National law will provide norms to keep the choice between safety and risk reasonable. Yet the idea may also be to use the collected capitals to stimulate investments in the economy of the own country. This faces us with a double problem:

- in order to be able to invest in serious securities, one has to be sure of their correct valuation. A real capital market and stock exchange are however still underdeveloped in the country. Valuation of unlisted or not publicly traded securities, such as e.g. real estate or physical assets may make valuation difficult. Property rights are sometimes undefined as a consequence of displacements caused by the war;
- in the EU restrictions on fund investing may be incompatible with the *acquis communautaire*, when the restriction differentiates between investing in the own or other EU countries. In the perspective of a possible adhesion to the EU this already now calls for our special attention.

It is also crucial for the success of the funded schemes that these are administered in an independent way, yet under a strict control. One has obviously to avoid that the fund managers run away with the money or take unreasonable investment decisions, but one has also to avoid that the public control ends up with lifting money from the funds to cope with public debts or deficits. All this is a question of establishing and maintaining public trust in the funds.

One is also to observe that the operation of funded schemes, especially when it is handed over to a multiplicity of private institutions, may be rather costly ... and thus at the expense of the people contributing. Also the issuing and delivering of account statements may be difficult and costly. It is important to keep the administrative costs

within reasonable limits, especially in the first period when the institutions only collect contributions and do not really start out making payments.

If the accrued capital is low, funded arrangements sometimes foresee one-time payments instead of regular payments. One has to make clear that one time payments do not address the social goals which the funded, e.g. pension schemes are supposed to pursue. Or to put it bluntly, if the pensioner gets a one off payment of his second pillar pension, he may very well end up in poverty ... and asking support when he consumes his one off funded pension immediately.

12. INSPECTION AND JUDICIAL PROTECTION

12.1. Combating fraud through inspection

It seems to be often believed that social security fraud, the persistence of a black, grey or informal labour market and corruption, can be tackled only by more and better inspections. It is clear that important improvements to the inspection mechanisms still can be made. Yet the solutions are not limited to improving the inspections.

Means testing of benefits, requires inspection visits in the homes of the benefiting households. However, to make them more efficient they may be based on a well designed and refined scheme that takes the statistical risks of non-compliance with the rules of the cash benefit system into account.

Low pay of inspectors makes them vulnerable to side-payments by employers. To overcome the difficulty to raise pay as such, it has sometimes been suggested to link the income of inspectors to the income they generate through their action (discovering black work; registering workers/companies). Although not to be excluded on beforehand, such an approach should be examined more closely before being put in place in the region.

Sometimes the duty to carry out the necessary controls and inspections is allocated in an unclear way to various institutions, the one sometimes looking at the other for starting to get active. A clear, comprehensive unified or at least coordinated approach seems advisable.

The tools of the inspection, and the sanctions to be applied should be adapted to an efficient intervention. If sanctions are too harsh they may deter from breaking the law, but it is also likely they will refrain the authorities, especially local authorities, to apply them. Then the severe sanction ends up to be no sanction.

12.2. Fraud proof legislation

When social fraud is to be combated, it is not in the first place the inspection's task. The legislator when drafting new legislation should examine the social fraud impermeability of the new norms. In other words when making new laws and arrangements, one has always to ask oneself: how will these norms be applied and, even more, how can they be defrauded. It is rather a question of making social fraud impossible, rather than to persecute afterwards those who committed the fraud. In doing the 'fraud test' the legislator has to show courage to take into account the reality as it is, and not only the 'official reality'.

We already pointed at the need of a realistic approach of the sanctions. Let us add only this. If someone transgresses the law, it are those who commit the law infringement which have to be punished, not those who are the victims of it. This

means e.g. one cannot blame a worker for not contributing (and in some cases even not for being not registered) and refuse accordingly a benefit, when the task to pay in the contribution (or register) lays with his employer. Furthermore sanctioning an enterprise by declaring it bankrupt, may sometimes ‘punish’ more its workers, than the employer, a company. Social penal law has to be adapted in a way that the real culpable, the people who take the profit of fraud, are also the ones being punished, notwithstanding all kinds of legal constructions.

12.3. Litigation and legal protection

In most countries of the region a dissatisfied social insured person or social aid applicant, will have to follow an internal appeals procedure, i.e. complaining about the decision to the same institution that took the decision (even sometimes to the same service or person). Bringing a litigation before a court is costly and still exceptional. Often there is no legal aid scheme to support the poor people in their litigation with social security. Moreover, courts specialized in social security issues are mostly not existing.

We consider it to be advisable to examine the introduction of such specialized courts who could deal with all social security legislation, both disputes concerning benefits and contributions. This would also do away with the practice of some countries of the region where courts are reluctant to enforce cases of non payment of contributions.

If the countries of the region are taking the perspective of an adhesion to the EU, the creation of a balanced and well informed judicial protection system seems all the more appropriate.

In passing it should be stressed, that experience shows that an external and judiciary legal protection system in the end is not destabilizing the social administration, but rather helping it to perform in the best possible way. It also reinforces public trust both in the administration, in justice and in social security.

12.4. The role of the ombudspersons

In some countries of the region, an ombud service has recently been introduced. One is often looking into the direction of this ombudsperson to redress inequities in the social security system. The specific role of the ombudsman, not replacing a judge, needs to be defined more clearly in relation with social security issues.

13. THE HISTORIC LEGACY AND THE DEMOCRATIC CHALLENGE

13.1. The wars of the past

The region has in the past decades been hit by wars and political oppression; persons have given their lives for their country or convictions, or simply got victim of the unrest. The consequences can be seen by the social security expert.: high number of mortal victims, leaving behind widows (and less widowers) and children;; a high number of invalids and a destroyed infrastructure; many refugees and displaced persons. Most countries have decided to award some 'privileges' to the military and civilians, hit by the war, the political oppression and alike. They give them a better pension, grant them some extra in the health care system, make up for periods passed fighting or in prison etc. We believe it is fair that a nation expresses in this way its gratitude and/or solidarity with those who were victims of struggles for a better society. Yet the mixing up of this expression of national recognition with the social goals own to social protection, may lead to undesirable effects.

We suggest not to take away these 'privileges', but rather to separate them structurally from social security. We should examine whether these privileges could not come on top of the ordinary arrangements, but as substantive allowances of an own nature (and possibly not weighing on the social budget, but e.g. on the budget of the ministry of interior or defence). A war pension would than e.g. be split up in an ordinary pension plus an allowance of national recognition, the total of both equal to the present war pension.

As we pointed out earlier, the return of displaced persons and refugees has to be dealt with by social security with reasonable expectations. If return is possible, the social security system(s) of the concerned country/ies should help them with the return. If return cannot be envisaged in a short period of time, social security should help people settle (provisionally or not, will appear as time goes by).

13.2. International aid and advice

Many international actors have been active and are present in the region, each with their own views and requirements: World Bank, IBRD, IMF, UNDP, ILO, Council of Europe, EU, and national aid institutions such as USAID, to mention the most important.

It is clear that for the moment the EU integration process is gaining momentum, implying that efforts will start focusing on the European social policy agenda. Some countries of the regions have already applied for membership or have a Stabilisation and Association Agreement with the EU.

Sometimes all these international actors make conflicting suggestions, which by itself is not problematic as it reflects an open and pluralistic approach. It should however be avoided that frail national institutions and the few competent national experts as well

as the social policy makers get overburdened by all kinds of projects and programs they cannot always grasp the utility of, or at least, their complementarity to other projects or programs already undertaken. It especially gets worrying when international projects and programs attract very valuable people away from the social administrations and public authorities they previously worked in, destabilizing in this way constantly these administrations and authorities.

It is advisable that all projects and programs carried out would be centrally registered and their outputs too. It is sometimes astonishing to see how very valuable studies and reports, disappear in one or other drawer whereas they could be very useful to the policy makers of the country.

Quite often international organizations set up pilots in some regions, in order to examine the feasibility of some reforms. At the start it has to be made sure that such regional or local pilots are established in the most representative places, not in those places where they may be most attractive for reasons of political opportunity, or for reasons of practical nature for those carrying out the project. In a later stage one will have to pay much more attention to the expandability of the results to the whole territory of the country.

In any case projects and programs setting up structures or schemes which cannot survive without the external help, should in principle not be set up.

International aid and advice very often is organized at a national level, whereas the problems encountered are not limited to the national borders, but common to all the region, if not to the whole of Europe. Initiatives which try to combine international aid with regional cooperation are to be welcomed, notwithstanding the difficulties to overcome apopsiopsis from the recent past. As an example of a good approach, let us refer here only to the 'Road map for regional cooperation projects as contained in: Cards social sector strategy study. Final report'(Jan. 2005) by Will Bartlett, Marija Kolin and Merita Xhumari, in which there is amongst other things pleaded in favour of:

- the development of regional hubs for the coordination of regional policies within the Stability Pact Social Inclusion Initiative;
- the establishment of a social policy impact assessment and evaluation unit to monitor and carry out impact assessments of assistance programmes in the Western Balkans; and
- the development of a regional research capacity in the field of social sector research through a research programmes based upon competitive bids from teams of local and EU academics and researchers, along the lines of the EC ACE programme which funded economics research in the former accession states;
 - the cooperation and exchange of the experiences through study trips, conferences or joint seminars between social policy professionals and policy makers in the region, not in the least to promote their regional cooperation;
 - the development of a network of national observatories on social policy and social inclusion in the Western Balkans

13.3. Capacity building and involvement in a democratic context

13.3.1. The political actors

If one is to take political democracy serious, those who decide about the future, amongst other things about social security and social protection, need to be well informed about the various options between which they can choose. Far too often the Minister of social affairs is enabled by an expert staff to make good proposals, but meets resistance against his/her proposals by colleague ministers and parliament. It is therefore of the highest importance that the whole cabinet (and their collaborators) as well as Parliament (both parties of the actual majority and minority) get the broadest and most objective information about the issues they decide upon. A sound democratic system needs the full and fair information of all. The proposals presented by the competent Minister do not loose, but rather gain strength when they are preceded or accompanied by a broad overview of possible alternatives and an inventory of pros and cons of each of them.

Social protection reforms affect several generations. They require a broader social consensus than short-lived parliamentary majorities. It is therefore advisable to try to reach agreement on the main lines of reform right across all major political fractions. Moreover, the implication of the social partners and civil society at large in such major reforms effort, may show to be a critical success factor.

What we said above, *mutatis mutandis* , also applies to regional and local decision makers.

13.3.2. The social partners

No social protection system, nor a reform of it can be sustained without widespread public acceptance.

Employers organizations and trade unions may play a crucial role in contributing to such a consensus. Of course one has to take into account that some of these organizations are still struggling to be really representative for all the employers and all the workers they are supposed to represent.

The importance of the role to be played by employers organizations and trade unions is especially prominent in the field of the promotion of (registered) employment.

Although the action of employers organizations and trade unions is primordially national, setting up trainings in social security for them on a regional basis, could enhance their ability to reflect on policy alternatives. Moreover amongst trade unions and amongst employers organizations it could be easier to overcome the national divides. Such regional initiatives could end up in the establishment of a regional network of trade unions/employers organisations to exchange experience and best practices in the region; preparing them as such to later take their place in the EU and other European social dialogue.

13.3.3. The media and civil society

The experience people had with all kinds of political decision making (also in the area of social security) is not always strengthening their confidence in the actual democratic decision makers. In the past corruption and theft of public money were not uncommon; the previous social security system has defaulted on its obligations and other financial institutions have sometime not met their obligations either. Sometimes rather important confusion prevails concerning the distinction between contributions and taxes, or concerning the meaning of various pension pillars.

If major reform initiatives are undertaken it is important to explain the issues at stake to the broad public, be it in an appropriate way. Consensus between political actors, even including the trade unions and employer organizations, without broad support in civil society, at least with the nucleus of the reform threatens the success of the implementation and the very sustainability of the reform in the longer run.

One can therefore not over estimate the importance of good, transparent, impartial yet even critical, information about social security (reform) to a broad public. Journalists and other media persons have to get a training also in social security in order to be able to understand what the issues are about. Again, setting up such specially media oriented trainings could best be undertaken at a regional level, in order to avoid that these trainings would be seen as a kind of disguised propaganda for government policies.

Also difficult and less sympathetic topics need to be brought to public attention, such as e.g. the unethical, unsocial character of undeclared work and of social and fiscal fraud. Moreover it is important to be aware of the very big danger threatening the democratic society as such, consisting of unrealistic expectations about the (newly independent) state, the privatization process, and the new social security.

13.3.4. Centres of knowledge and contact

Good information both of policy makers, parliaments, trade unions and employers organizations and the media, requires good sources of information. Far too often social security expertise today is concentrated with the central administrations, with the top staff of the ministries. This may seem good, but constitutes the danger that the opposition, and in general, those not fully confident in government policies, may challenge the government policies on wrong grounds, or may fail to detect the flaws in the governmental plans. A good government, especially a minister in charge of social policy is best served by well informed and educated 'sparring partners' or dialogue partners if one prefers. Therefore both national centres of social security expertise outside the ministries need to be promoted, e.g. at the universities and research centres, and people interested in social security should be able to meet on political neutral grounds to discuss freely and openly the major social challenges. Such 'social security clubs' could contribute in a substantial way in the development of an own national, broadly supported, social security reform plan. They could be helped also to import whatever expertise from abroad they consider needed and should at one stage or another also be able to liaise with each other throughout the region.

14. GOING FROM HERE ...

It is important to stress that this and the three other assessment reports, form the basis upon which further action will be undertaken in the coming year.

This report has to be read as a menu of proposals for in-depth examination of issues common to more than one country of the region. Upon the feed-back we will get from the national contact experts this assessment report will be finalised in order to be presented at the conference to be held in November 2006.

National contact experts will have read the four assessment reports and come up with proto-national-approach plan and discuss it in Budva during the month of August 2006. The proto-national approaches include a first idea of what expert actions should be undertaken for the concerned country and in what multi-country initiatives proposed by the draft regional assessment reports the countries could participate. Moreover, they give first indications about how the national strategic plans could be developed.

The Conference in November will allow the part taking countries to make their choices.

On the basis of the regional assessment reports, all specific reports on selected reform issues, the own work and contacts of each national contact person each of them will draft the integrated national strategic plan or memorandum for his territory.

This first draft will than go a double way: on the one hand it will make it possible to draft a regional memorandum, sketching out what are the major issues in the region and especially how further initiatives (of the EU, the Council of Europe or other) could address these issues; on the other hand it will be discussed by the national contact experts with the corresponding national authorities.

By following this procedure we shall be able to target the project in the best possible way to the needs of each of the participating countries, without abandoning the will to act as much as possible on the level of this whole region of Europe.

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