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SOCIAL INSTITUTIONS SUPPORT PROGRAMME

**Albania
Bosnia and Herzegovina
Croatia
Kosovo
FYR of Macedonia
Montenegro
Serbia**

Regional assessment report on
social security financing issues

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INTRODUCTION

This report presents an assessment of the social security systems in the Western Balkans Countries (Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR of Macedonia, Montenegro and Serbia) on the angle of financing issues.

The report has been elaborated mainly on the basis of materials gathered by the local project officers and experts working for the CARDS-SISP project ("IPO" in this report refers to these local teams).

The report is composed of six parts:

- Part I makes a general presentation on the political and socio-economic context of the region
- Part II analyses the pension systems, the pension benefits, the persons covered and the funding of the schemes
- Part III presents the health care systems, the population covered, the health care financing and expenditures and the cost containment initiatives taken in the region
- Part IV is related to unemployment protection: it makes a presentation of the regional situation of the labour market, the unemployment benefits and the unemployed population, the financing of the unemployment insurance system and the role of labour inspectorate and brief comments on current and planned active employment policies
- Part V concerns social welfare and in particular family benefits and social assistance: after a presentation of the situation related to poverty in the region, the report presents the different benefits and services provided to vulnerable groups, the beneficiaries of the social welfare benefits and assistance and then analyses some financial issues related to the social welfare systems.
- The report ends with conclusion with recommendations for possible additional in depth analysis.

The author would like to mention that it was sometime difficult to identify the most accurate, reliable and consistent information and data on the social security systems for each country due to the impressive amount of documents gathered by the IPO's team not coming from the same source and elaborated at different periods not always clearly identified (for some data, the author had to compare the data coming from different sources in order to identify the most reliable ones). Furthermore, the lack of homogeneous and detailed data, covering several years, rendered difficult the analysis of the impact of ongoing and planned reforms of social security systems or cross country analysis in terms of expenditure and population covered.

I. GENERAL CONTEXT

1.1 Political and historical context

During the last two decades, the Western Balkans countries have been through deep economic, social and political turmoil. The break-up of the former Yugoslavia was in stark contrast to the other central and eastern European countries where the transition period towards the free market and pluralist democracy, although it introduced strong economic and social pressures on their population, was considered relatively successful. The Western Balkans in contrast suffered severe political and social instability with wars and ethnic conflicts.

However, despite the difficult political, economical and social development in the 1990s, all the countries have subsequently made significant progress since their transition towards a market-based economy.

Although all these countries, except Albania, have 50 years of common history within the former Yugoslavia, it is not possible to make a global analysis of the region without taking into account the social and economic specifics of each country.

As shown in table 1, the distribution of the population among the Western Balkans countries is far from being homogeneous with a country as Serbia representing almost 31% of the total population of the region and Montenegro only 2.69%.

Table 1: Distribution of the population

	Population	Inhabitants per km ²	Distribution	
			Urban	Rural
Albania	3,115,123	109	44%	56%
Bosnia and Herzegovina	4,025,476	71	43%	57%
Croatia	4,437,460	78	n.a.	n.a.
Kosovo	2,473,000	175	40%	60%
FYR of Macedonia	2,023,189	78.7	59.8	40.2
Serbia	7,498,001			
Montenegro	650,575	79	52%	48%

Sources: IPO's reports and World Bank

All the countries have developed their own national institutional and administrative organisations based on their specific political situation.

After the Second World War, Albania became a communist regime and remained isolationist until its transition to democracy in 1990. The transition period toward a free market economy led to strong internal tension with successive governments faced with a disruptive political, social and economical context. However, the Albanian authorities have committed themselves in a set of political and socio-economic reforms and initiatives in order to improve the present situation and stabilise the country.

The complex administrative organisation of Bosnia and Herzegovina (BiH) is partly the consequence of an extremely destructive war which plunged the country between 1992 and 1995. The country is made of two entities, Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH), with, for each of them, their own government structure, and additionally the Autonomous District of Brčko which has also its own government.

After various wars of independence in the 1990s which led to important human, economical and infrastructure damages in Croatia, the country made impressive progress in term of economic development and became the furthest advanced on the road to European integration. It is now the wealthiest country of the region.

Kosovo represents a unique situation as being under international protectorate since the end of the war with Serbia. Now the country is facing a big challenge to establish its own state structures.

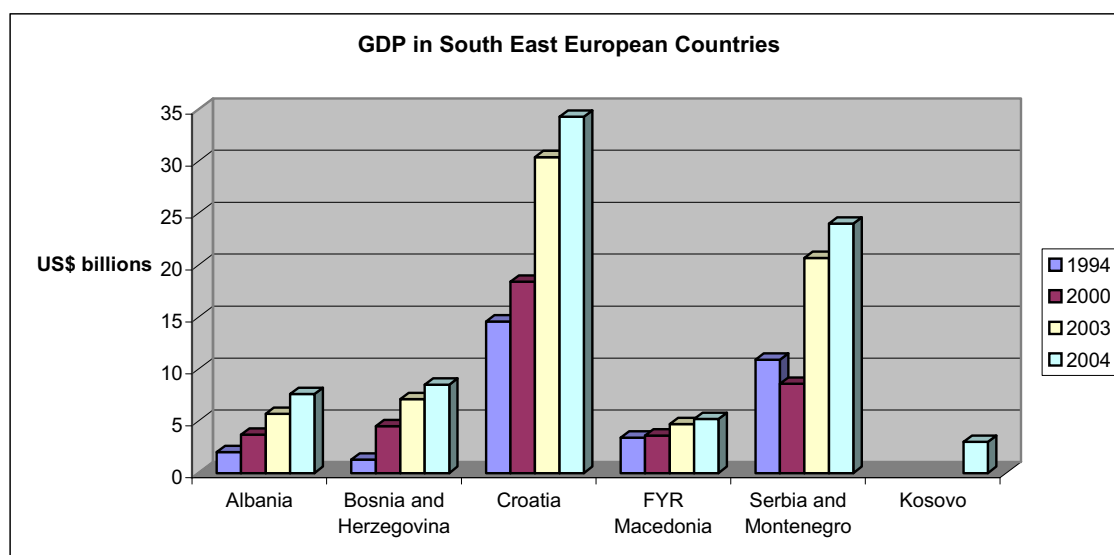
The Former Yugoslav Republic of Macedonia is one of the smallest countries of the region. After serious political and security crisis in 1999 and 2001, the country returned to stability and economic integration with the EU is well advanced.

After dramatic political periods resulting in ethnical conflict, wars, international sanctions and isolation, and the change of government in October 2000, Serbia and Montenegro progressed steadily towards a modern market economy. In the new openness and democratic environment reforms have already led to economic stability and renewed growth. The state of Serbia and Montenegro consisted of two republics until May 2006 when Montenegro voted for independence from its union with Serbia.

From 2000 and with the change of governments in almost all the countries, significant progress has been made toward democratic development and political stability.

1.2 Social and economic contexts

Figure 2: GDP per country



Source: World Bank, World Development Indicators database

Table 3: GDP growth (annual %)

	2000	2003	2004
Albania	7.3%	6.0%	5.9%
Bosnia and Herzegovina	5.5%	4.0%	6.2%
Croatia	2.9%	4.3%	3.8%
Kosovo	n.a.	3.1%	3.5%
FYR of Macedonia	4.5%	2.8%	2.9%
Serbia and Montenegro	5.0%	2.4%	8.2%

Source: World Bank, World Development Indicators database

As showed in figure 2 and table 3, the region's economy has recovered from the period of political instability.

In Albania, the cumulative growth reaches an annual average of 6.3%, due basically to efficient stabilisation programmes with inflation contained within the limits of 2%-4% set by the Central bank, significant structural transformation and migrants' remittances.

Since 1995, the GDP of Bosnia and Herzegovina has tripled thanks to an impressive economic recovery, low inflation (average 0.6% in 2003) and sustained social stability, supported by high levels of international assistance.

The successful implementation of structural reforms, the macroeconomic stability with inflation in 2005 of 0.5% in Croatia, the development of the private sector, have strengthened the economy with a constant high GDP growth during the last years.

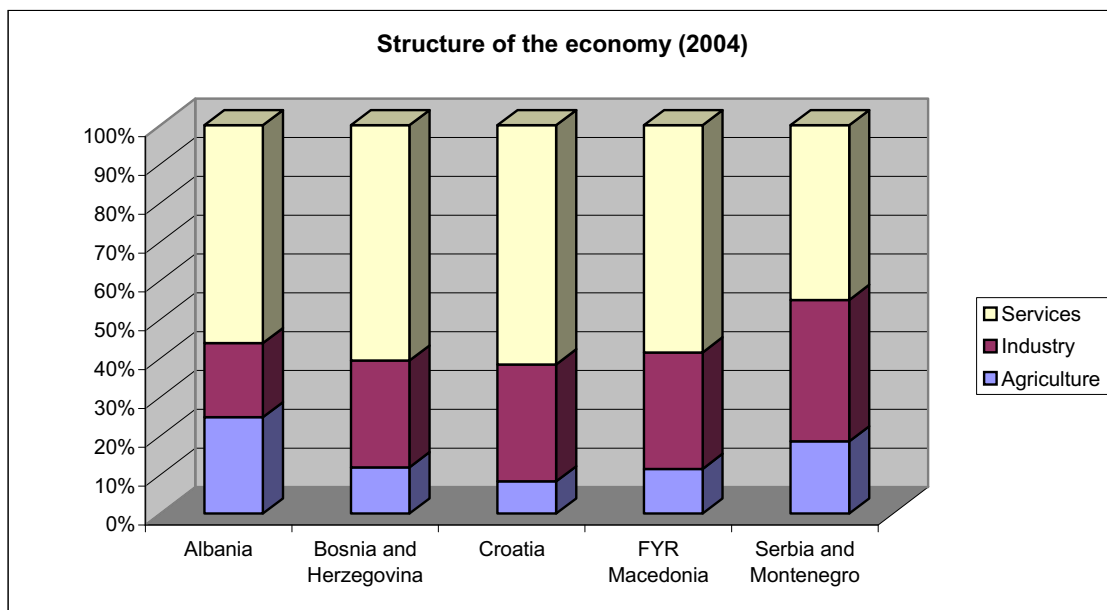
Kosovo is considered as being one of the poorest economies in Europe. However, since the end of the conflict in 1999, reconstruction has proceeded well thanks in particular to the

support of international donors and remittances from abroad. The establishing of euros as local currency has contributed to provide a low inflation (1.4% in 2004).

Because of unstable political situation until 2001, the level of GDP in Macedonia remains modest. However, since 2003 thanks to economic reforms, stable domestic environment and improved regional situation, the country reached a certain level of macroeconomic stability with an inflation of 0.5% in 2005, after a deflation of 0.4% in 2004 and the decision of the Central bank to peg the national currency to the euro.

Following the change of government in 2000 in Serbia and Montenegro, the country has started economic reform and stabilisation. The implementation of market-oriented stabilisation policies led to a recovery of GDP. However inflation remains high and stood at 17.5%, whereas the rate is only 1.7% in Montenegro. But it is important to mentioned that both Serbia and Montenegro have started important reforms towards establishing a functioning market economy in a relatively short period of time and that the economic situation is improving rapidly.

Figure 4: structure of the economy output



Source: European Commission

The transition toward the market economy still leaves an important place to the industrial and agricultural sectors (see figure 4) in particular when comparing to the structure of the economy in the "old" EU members states where services represent almost 70% of the economy. This high level of reliance on agriculture and industry has a great impact on the wage structures, the productivity factors and the employment market situation.

Table 5: GDP per capita (in ascending rank of order)

Croatia	6,200 €
Montenegro	2,648 €
Serbia	2,506 €
FYR of Macedonia	2,170 €
Albania	1,680 €
Bosnia and Herzegovina	1,654 €
Kosovo	964 €

Source: European Commission

The low GDP per capita in all the countries is a consequence of low productivity but it is also due to a high level of unemployment and high poverty rates. Even in Croatia, where GDP per capita represents almost 243% of the average GDP per capita in the region, this amount does not reach 45% of the EU average. However, since it is extremely difficult to delimit the size of the grey economy (estimated for example as 40% of official GDP figures in Bosnia and Herzegovina and 30% in Serbia) and to have fully reliable data for countries as Kosovo, the figures provided in table 4 should be considered as indicative.

Table 6: Population below national poverty line (in descending rank of order)

Serbia and Montenegro	10%
Croatia	11%
Bosnia and Herzegovina	18%
Albania	25.4%
FYR of Macedonia	30.2%
Kosovo	37%

Source: World Bank

Despite favourable economic performance, all the countries of the regions are confronted to worrying and persistent level of poverty as shown in table 6. The low per capita income but also the restructuring of the economy and the adjustment to the rules of the market economy reinforce the problem of poverty in those countries. 12% of the population is supposed to live in extreme poverty in Kosovo and 5% in Albania. The rising differences between wages and the reduction of the cash incomes have strengthened the inequality between the citizens in the region.

The relatively low level of poverty mentioned in table 6 for Serbia and Montenegro is partly the consequence of the generous welfare system inherited from the past. However, the consequence of the painful ongoing economic reforms and of the low financial resources for financing the social protection system is the worsening of the social situation of the population and a constant growing of the number of persons concerned by poverty and marginalisation.

Poverty has a geographical and regional character: the phenomena concerns particularly rural and war affected areas.

Population groups most at risk of poverty are people with low level of education, children, old-age persons, women, large families, unemployed people, displaced persons and refugees, disabled people and Roma.

Moreover, having a job or benefiting from a pension does not prevent poverty since many employed people and pensioners are at risk of poverty in circumstances in which the average amounts of wages and pensions is insufficient to provide a decent standard of living for the families.

1.3 Social Protection

With the transformation of the society toward a market-based economy and the increasing social problems met by an important part of the population, the Western Balkans countries have to face a considerable challenge in a context of strong constraints in term of budget deficit in order to guarantee sufficient social protection for the population, necessary for sustainable of economic growth in a pacified social context.

The adaptation of the social protection systems inherited from the past to the new economic and social context led the countries to implement a range of new social benefits covering the population against the "new" social risks linked with a free market and open economy.

The reform process is far from being completed and is implemented in a context of increasing needs of the population with inadequate financial, human and material resources.

In order to better target the low financial resources to the most needed population, all the countries are in the process of decentralisation and reorganisation of structures between the central, regional and local levels with a new share of responsibilities and functions. This decentralisation includes greater involvement of the private sector, NGOs and civil society in the management of the social protection system and in the provision of social services to the population. However a major issue concerns the matching of local governments fiscal capacity with their responsibilities in social protection and other sectors. For example in Albania, the current level of economic assistance to eligible heads of household is only 1/3 of legal entitlement because of the shortage of central government transfer funds and the weak fiscal capacity of the municipal and commune governments.

Furthermore, the success of the reforms will depend to a certain extend on the capacity of the main social players to develop adequate methods of coordination, to strengthen administrative capacity at all the levels (central, regional and local), to train staff to their new tasks and to give to the local levels the necessary fiscal resources for covering the social needs in term of benefits and services.

Table 7: Corruption Perceptions Index

	2004 CPI Score	Country Rank
Croatia	3.5	67
Bosnia and Herzegovina	3.1	82
FYR of Macedonia	2.7	97
Serbia and Montenegro	2.7	97
Albania	2.5	108
Kosovo	n.a.	n.a.

Note: CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

Source: Transparency International

Support and confidence of the population in the social protection system is also an important factor of success, in particular in the context of decentralisation. As shown in table 7 concerning the degree of corruption as seen by the population and made for 133 countries, the phenomenon of corruption in the public administrations is important in region and needs to be addressed by the governments in order to increase the efficiency of the social protection systems.

II. PENSION

2.1 The pension schemes

During the last decade, all the countries of the region have implemented new pension schemes based on the pay-as-you-go (PAYG) philosophy. But these systems were rapidly confronted by the ageing of the population and the increasing number of beneficiaries of pension not compensated by financial resources coming mainly from social contributions paid by employees and employers.

Pension reforms are still ongoing and many countries are currently implementing, or planned to implement, multi-pillar (usually 3 pillars) pension schemes.

The three pillars are generally the following ones:

- The first pillar represents the basic scheme, based on solidarity, financed generally by social contributions paid by employers and/or employees and managed by public organisations with the participation of the social partners
- The second pillar is a compulsory pension insurance based on individual pension saving and managed by public or private organisations
- The third pillar is a supplementary voluntary scheme managed by private companies

Table 8: Structure of the pension schemes

	Basic concept	Population covered	Risk covered
Albania	PAYG	Employees Employers Self-employed	Old age Invalidity Survivors
Bosnia and Herzegovina	PAYG	Employees Self-employed Farmers Persons in religious services	Old age Invalidity Survivors
Croatia	First pillar: PAYG Second pillar: Funded	Employees Self-employed Self-employed farmers	Old age Invalidity Survivors
Kosovo	First pillar: PAYG Second pillar: Funded	First pillar: All the residents Second and third pillar: Employers Employees Self-employed persons	Old age Invalidity Survivors (for pension saving scheme only)
FYR of Macedonia	First pillar: PAYG Second and third pillars: Funded	Employees Employers Independent artists	Old age Invalidity Survivors
Montenegro	PAYG	Employees Self-employed	Old age Invalidity

		Farmers	Survivors
Serbia	PAYG	Employees Self-employed Farmers	Old age Invalidity Survivors

Note: in all the countries persons can participate to the pension schemes for old-age on voluntary basis

Sources: IPO's reports

Croatia has started to implement the new three pillars pension system on 2002. The first pillar remained as a public pension system based on defined benefits and on compulsory contributions on employees' salaries. The new second pillar is based upon individual contributions to a private capital account held by a licensed private pension fund. The third pillar of supplementary and voluntary private pensions has not been established, although there are already a number of company pension funds and some mutual funds.

In Kosovo, the two first compulsory pillars providing basic and individual saving pensions have been implemented. The first pillar, covering all the Kosovar population, is financed out of the general revenue of Kosovo budget, whereas the second pillar is financed by contributions paid by employers.

A law adopted in 2000 in Macedonia established the three pillars pension system which was to be fully operational by 2006. The second pillar will be compulsory for the person employed for the first time, while existing ensured persons could join the new scheme on a voluntary basis.

The Albanian pension system is based on a compulsory insurance scheme. A supplementary (voluntary) insurance scheme has been design in order to give the opportunity to people to receive higher amount of benefits, but it has not been implemented yet.

In Bosnia and Herzegovina, each entity has developed its own compulsory pension schemes based on employment and on the philosophy of mutuality and solidarity. A reform is being carried out for harmonising the pension systems in the two entities in order to facilitate the transfer of acquired pension rights between RS and FBiH.

In 2003, Serbia has implemented a new pension system based on compulsory insurance and aiming at ensuring the sustainability of the former PAYG system. A reform of the compulsory insurance system in Montenegro was implemented from January 2004 with the adoption of a new law on Pension and invalidity insurance. The implementation of a multi-level pension system is a long term objective which will be developed once the present PAYG system will be fully stabilised.

Throughout the region, the PAYG systems are confronted with important difficulties linked with the ageing of the population, the decline and restructuring of enterprises which led to the adoption of widespread practices of early retirement to ease the layoff of older workers, the lack of financial resources due to the non-payment of social contributions and the high level of unemployment.

The implementation of pension reforms, in particular of multi-pillar systems introduces new financial constraints on the systems, in particular in the short and middle terms. Firstly, there is a transitional cost associated with the new systems due to the necessity from the state budget to increase its funding to the first pillar since the implementation of a second compulsory pillar generally reduced assets available for the first one. Secondly, the implementation of funding systems relies on optimism of the ensured people about the rate of return and adjustment may need to be made in the future for example by raising the contribution rate. Thirdly, the success funding systems is tightly linked with the growth of the economy, fiscal stability, and needs to be managed by an efficient administration system with a close supervision of the state which will have, in case of financial crisis, to guarantee a minimum amount of pension benefits in order to avoid social crisis.

Some countries could decide to invest money collected and saved in individual accounts, in particular in the framework of the third pillar on "safe" financial market, e.g. in the "old" EU members states, rather on the local financial market. This is the option chosen by Kosovo where the money collected for the second pillar is invested in a private bank in Belgium. However, the downside is that the funds are leaving the country and are not available for investment within the country and for contributing to the improvement of the productivity and competitiveness of the local firms.

2.2 The level of benefits

In most of the countries, the average amount of pension (between €80 and €135 for old-age pension depending on the country) represents less than 50% of the average salaries. The amount for disability and survivor pensions is in general 25% lower than for old-age.

Table 9: Level of old-age pensions and average national wages (first pillar)

	Minimum pension	Maximum pension	Indexation	Average wage
Albania	7 266 LEK	14 532 LEK	Indexed on the change in the price of a baskets of goods and on the national average contributions paid in the year	21 235 LEK
Bosnia and Herzegovina	FBiH: 161,00 BAM RS: 90,00 BAM	FBiH: 728 BAM RS: no maximum	FBiH: every three months by a percentage up to the average growth in the year and in accordance with the available resources of the insurance carrier RS: on monthly basis based on the evolution of the average salary of all the employed people in the RS	472.80 BAM
Croatia	688.65 HRK (45.91 HRK per year of insurance)	180 HRK per year of on insurance	Twice annual adjustment determined by adding 50% of increase in the cost of living and 50% of the increase in the average gross earnings in the preceding half year period	5 985 HRK
Kosovo	-	-	Pensions indexed on the increase of consumer goods prices	n.a.
FYR of Macedonia	3 903 MKD	26 781 MKD	Adjusted twice a year on changes in the national average wages	20 999 MKD
Montenegro	n.a.	n.a.	Average gross wage indexed every six months	n.a.
Serbia	3 973 CSD	48 703 CSD	n.a.	25 392 CSD

Sources: IPO's reports

The low inflation rates and the regular adjustment of the pension level to average national wages or to the evolution of consumer goods prices prevent benefits level from deteriorating and to increase the already existing important gap in standard of living between the workers and pensioners.

Despite the fact that most of the pension systems are unsustainable and inefficient, these low pensions do not cover the minimum living standards of many pensioners which are often confronted to poverty. Furthermore, in some countries, as in Bosnia and Herzegovina, due to the financial difficulties of the pension funds, pensions are not paid at full rate or their levels are not index accordingly to the law. The main obstacle for providing broader support to poverty-stricken pensioners and the elderly in general is the lack of budgetary resources and the low levels of average salaries of the working population.

The situation of Kosovo is particular due to the fact that the pension scheme is maintained financially through the Consolidated Budget of Kosovo and encompasses all residents over the age 65 years regardless of their work history. However, despite an increase of the pension

amount from 28€ in 2002 to 40€ in 2004, the level is extremely low and should not be higher in the near future due to the fact that overall expected expenditure level has to remain within the limit of overall funds allocated to the Provisional Institution of Self-Government for the basic old-age pension from the Kosovo Consolidated budget.

The introduction of second and third pillars is supposed to improve the situation for the persons who are currently contributing to it and who will benefit from the new system in the future. However, these new pensions systems will not provide benefits before at minimum five years and will only concern, during the first period, a very limited number of pensioners.

2.3 Beneficiaries

The number of pensioners has increased in all the countries of the region. As a result of ageing of the population, the erosion of the contribution bases linked to the high level of unemployment and extensive grey economy and the high number of disabled people due to the consequence of war in some of the countries, the ratio between employees and pensioners is extremely unfavourable and declined to 1.4 in almost all the region (see table 10).

Table 10: Ratio between employees and pensioners

Albania	1.4
Bosnia and Herzegovina	1.4
Croatia	1.6
Kosovo	n.a.
FYR of Macedonia	2
Serbia	1.4

Sources: Author's calculation of the basis of IPO's reports

The burden of pensioners' benefits on the employees could become more important in the following years as shown in table 11 with an increase of the old age dependency ratio.

Table 11: Evolution of old age dependency ratio (% people above 65 years compared to people between 15 and 64 years)

	2000	2005	2010	2015	2020	2025
Albania	10.44 %	11.57 %	13.07 %	13.71 %	15.55 %	18.37 %
Bosnia and Herzegovina	13.89 %	16.02 %	16.51 %	18.59 %	23.31 %	29.06 %
Croatia	21.90 %	23.94 %	24.54 %	26.89 %	31.37 %	35.47 %
Kosovo	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FYR of Macedonia	14.94 %	16.20 %	17.35 %	18.93 %	22.01 %	25.10 %
Serbia and Montenegro	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Author's calculation on the base of World Bank's data

The situation of Kosovo is particular due to the fact that the country has the youngest population of the region, with almost one third of the population younger than 15 years and 42% younger than 19 years. The share of people above 65 years in the overall population is about 6% which is lower than in neighbouring countries. But, with an unfavourable ratio between employees and pensioners because of the high rate of unemployment, Kosovo is also confronted to a problem of financing of its pension system.

However the situation in all the countries will depend on the evolution of the labour market. The strong decrease of the unemployment rates and of the shadow economy which would increase the labour force participation rate and the financial resources of the pension system could improve the present situation, even in a context of ageing of the population.

Table 12: Eligibility criteria for old age pension

	Minimum period of membership	Legal retirement age (current or targeted)	
		Standard pension	Early pension
Albania	20 years	65 years for men and 60 years for women	50 years (for mother of large family only)
Bosnia and Herzegovina	20 years	FBiH: 65 years RS: 65 years for men and 60 years for women	60 years (men) 55 year (women)
Croatia	15 years	65 years for men and 60 years for women	60 years (men) 55 year (women)
Kosovo	-	65 years	-
FYR of Macedonia	15 years	64 years for men and 62 years for women	None
Montenegro	15 years	65 years for men and 60 years for women	55 years (for long periods of insurance)
Serbia	15 years	65 years for men and 60 years for women	53 years (for long periods of insurance)

Sources: IPO's reports

The recent reforms of the pension systems have defined new eligibility criteria for entitlement to full pension benefits. All the countries are gradually increasing the legal retirement age which will reach 65 years for men and 60 for women in almost all the region.

2.4 Funding of the pension systems

The pensions contributions, mainly collected by social security organisations, are generally managed by public pension funds, administered on a tripartite basis, with budgets independent from the state budget. The state guarantees normally the solvency of the funds, supports the budget pensions deficit, and finances the costs of pension benefits granted under more favourable conditions (e.g. military officers).

The level of social contribution for pension is quite high in the region (except in Kosovo due to the very specific pension schemes for which one contributions have only to be paid for the second pillar) – See table 13.

Table 13: Contribution rates in percentage of earnings

	Employers	Employees	Thresholds
Albania	29.9% of gross wage		Monthly wage: Min: 11 376 LEK Max: 56 881 LEK
Croatia	First pillar: None (except for employees with arduous and unhealthy jobs: from 4.86% to 17.58%) Second pillar: None (except for employees with arduous and unhealthy jobs: from 1.25% to 4.51%)	First pillar: 20% if insured only under first pillar, 15% if insured in the second pillar Second pillar: 5% of gross wage	Monthly wage: Min: 2 080.75 HRK Max: 35 670.00 HRK
Bosnia and Herzegovina	FBiH: 7% of gross wage RS: none Brcko District: For PIF of FiBiH: 7% of gross wage For Republika Srpska: none	FbiH: 17% of gross wage RS: 24% after tax reduction Brcko District: For PIF of FiBiH: 17% of gross wage For Republika Srpska: 24 after tax reduction	n.a.
Kosovo	Second pillar: 5% of gross wage		-
FYR Macedonia	21.2% of gross wage		n.a.
Montenegro	9.6% of gross wage	12% of gross wage	n.a.
Serbia	11% of gross wage	11% of gross wage	Min.: 40% of the average earnings paid in the previous quarter of the year Max: 5 times the average monthly wage

Note: The contribution rate for self-employed persons is generally equivalent to the rate to be paid by employers and/or employees.

Sources: IPO's reports

However, despite the high level of contribution rates, the countries are facing an increasing imbalance between the need for social protection benefits and the resources available to finance them. While the number of actual and potential number of beneficiaries are growing,

the number of active contributors and tax-payers has been shrinking with decrease of labour participation rate.

The burden of pension fund on the national economy is important in several countries as shown in table 14. Pension contributions often cover only a part of the expenditures with the gap made from the central government budget (representing sometime more than 50% of the pension budgets), thus contributing to the budget deficit.

The problem of lack of coordination of the social security systems between the different countries of the region but also within some of the states themselves, increases the level of the pension expenditures because of the non transfer of acquired pension rights. In Bosnia and Herzegovina, the agreement signed between RS and FBiH concerning the transfer of acquired pension rights between the two entities has not been observed and consequently the RS is paying pensions amounting to a total of about BAM6m (3 million of euros) for 20,000 pensioners who acquired their pension rights in FBiH.

Table 14: Pension expenditures as % of GDP

	% of GDP
Albania	4.2%
Bosnia and Herzegovina	3.9% (FBiH) 4.6% (RS)
Croatia	12.35%
Kosovo	2.5%
FYR of Macedonia	10.7%
Montenegro	13%
Serbia	12%

Sources: IPO's reports and authors' estimate based on several sources

The implementation of reforms of the pension systems, allowing to better align entitlements to available resources seems to had positive effects in some countries as Serbia, where some data mention that the share of pension expenditures as percentage of GDP would have decreased significantly.

But, with the already low level of average pensions benefits and the ageing of the population, it does not seem to be possible to decrease the level of pension expenditures in the future. Nevertheless, the growth of the economy, the new eligibility criteria and an improvement of collection systems for contributions and taxes could compensate the increase of number of pensioners.

Furthermore, the active participation of ensured people through the involvement of the social partners in the management of the pension funds and the implementation of pension systems based on individual accounts should be incentive factors contributing to increase payment of social contributions.

III. HEALTH CARE

3.1. The health care systems

After the long period of conflict and political instability the population is slowly recovering from a situation of deterioration of its health with the support of international community (see tables 15 to 17). However, health indicators and life expectancy are still low compared to the one of the Western European countries.

Table 15: Life expectancy at birth

	2000	2003	2004
Albania	73,3	73,9	74
Bosnia and Herzegovina	73,6	74,1	74,3
Croatia	73,8	74,8	75,4
FYR of Macedonia	72,9	73,3	73,6
Serbia and Montenegro	72,5	72,9	73,2

Sources: World Bank, Country Data Profile

Table 16: Mortality rate, infant (per 1,000 live births)

	2000	2004
Albania	22	16,5
Bosnia and Herzegovina	14	13,2
Croatia	7,4	6,3
FYR of Macedonia	16	12,8
Serbia and Montenegro	13,9	12,7

Sources: World Bank, Country Data Profile

Table 17: Mortality rate, under-5 (per 1,000)

	2000	2004
Albania	25	18,6
Bosnia and Herzegovina	17	15,4
Croatia	7,8	7,3
FYR of Macedonia	18	14
Serbia and Montenegro	16,3	14,9

Sources: World Bank, Country Data Profile

Table 18: Health care services and facilities

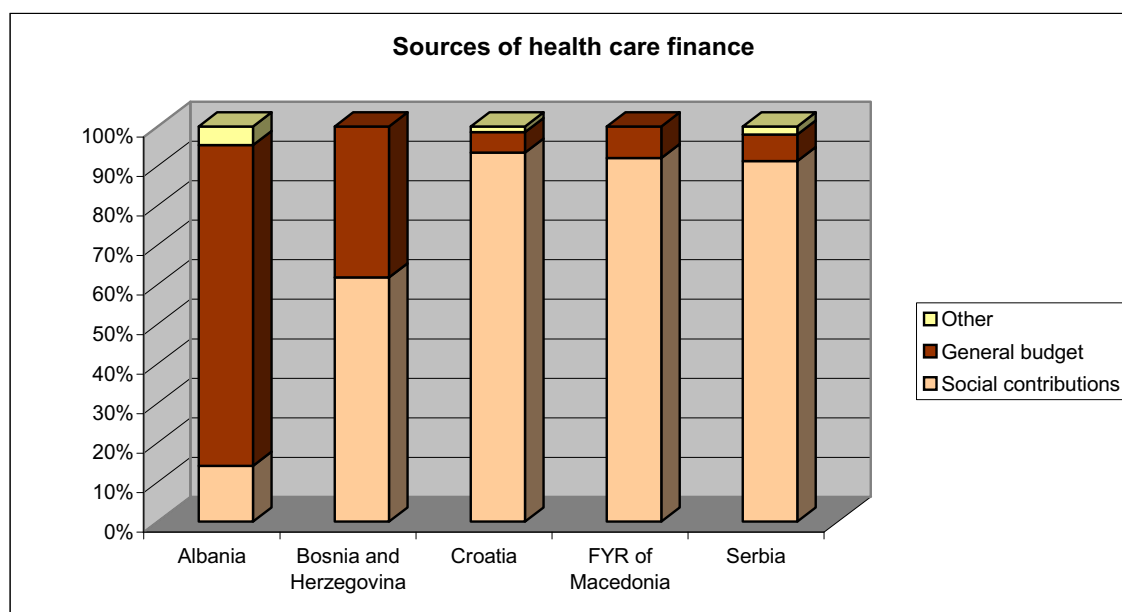
	Medical doctors per 1000 population	Hospital beds per 1000 population	Dentists per 1000 population	Pharmacists per 1000 population
Albania	0,87	0,34	0,40	0,45
Bosnia and Herzegovina	1,26	3,20		
Croatia	1,80	5,62	0,13	0,38
Kosovo	n.a.	n.a.	n.a.	n.a.
FYR Macedonia	2,20	4,80	0,60	0,20
Serbia	4,08	5,92	0,45	0,25

Sources: IPO's reports

Although the number of health care providers is quite high compared to the EU members states (see table 18), the provision of efficient health services accessible to the whole population taking into account the financial constraints is still one of the priorities of governments which have started since the last years important reforms in health care the sector.

As shown in figure 19, the main source of finance of health care in Croatia, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro is a compulsory health insurance managed by health insurance funds.

Figure 19: Sources of health care finance



Sources: IPO's reports

The relatively important source of health care financed by the State budget in Bosnia and Herzegovina is partly due to the fact that an extensive proportion of the population (37% in RS and 15% in FBiH) is not covered by health insurance and that health insurance funds are confronted to financial difficulties because of the failure of the system to collect health care contributions.

Health care in Albania consists of public health care system and health insurance system. Health care insurances cover only primary health care services, cost reimbursement of some drugs and some medical examinations. The other services, which represent the most important part of health expenditures, such as costs of hospitalisation in public hospitals, emergency treatments and preventive measures are covered by the public health care system.

For those countries, the forms of health care and rights uncovered by the compulsory and supplementary health insurance may generally be realised under voluntary insurance. Some countries are also implementing additional insurance managed by private insurance companies and covering wider scope of entitlement than those provided under the basic health insurance.

There is currently no system of health care insurance in Kosovo, although the implementation of such a system is in the process of being established. Presently, the health care system is maintained by contributions from the Kosovo Consolidated Budget and direct participation of the patients.

In order to improve the efficiency of the health system and to better adjust the health care needs of the population to the available financial resources, all the countries are decentralising the management of the health care system, developing primary care based on family medicine model and implementing cost containment measures.

However, the decentralisation process faces a problem of coordination between the main players concerned at the national, regional and local levels, and of distribution of human and technical resources. The transfer of health care services to municipalities including their financing responsibilities without adequate financial resources also increases the burden on the local budgets.

The private sector in health care, often unregulated and not or only partly reimbursed by the basic health care insurance, is growing rapidly, especially in urban areas, where a small part of the population has become extremely wealthy. This phenomenon increases inequality in the access of health care among the population.

In Serbia, the health services provided by a majority of public health care institutions are rather low. In some case, these institutions are even not able to provide certain services to the insured people which have to pay for service in private sector, not covered by the statutory health insurance.

3.2. Population covered

Constitutions or laws in the region define generally the principle of universal access of health care for the population. However, since most of the countries have health care systems based on insurance principles and that an important part of the population is not covered by health insurance, the rate of coverage by health care often do not reached 100%, which is a significant change from the past situation, when health services were available to the entire population free of charge at the point of delivery.

Generally, the statutory health insurance extends to the individuals who pay social contributions and to the family members. For persons receiving pensions, the contributions are paid either by the pensioners themselves or directly by the pension funds. Unemployed people registered in Employment agency are insured by contributions paid on their behalf by the agency. Persons who are not covered through employment with compulsory insurance or co-insurance can voluntarily insured themselves with the health insurance funds.

However, due to the extensive grey economy, but also, in some countries and in particular in rural areas, to the difficulty to have access to health care services, a part of the population remained excluded from the health care system, even in countries were poor people can have access to health care through social assistance that bears the costs of medical treatments.

3.3. Health care financing and expenditures

As already mentioned in part 3.1, health expenditures are mainly financed through health insurance funds in the region. The funds are financed from health contributions paid by employers and/or employees on the basis of a proportion of gross wage payments for individual employees (see table 20).

Table 20: Contribution rates in percentage of earnings for health care insurance

	Employees	Employers	Thresholds
Albania	1.7% of gross earnings	1.7% of gross earnings	Monthly wage: Min: 11 376 LEK Max: 56 881 LEK
Bosnia and Herzegovina	FBiH: 13% RS: 15% after tax reduction Breko District: 12% of gross earnings	FBiH: 4% of gross earnings	n.a.
Croatia	None	15%	Monthly wage: Min: 1 858.50 HRK Max: 31 860.00 HRK
FYR of Macedonia	None	9.2%	n.a.
Montenegro	n.a.	n.a.	n.a.
Serbia	6.15%	6.15%	Min.: 40% of the average earnings paid

			in the previous quarter of the year Max: 5 times the average monthly wage
--	--	--	--

Sources: IPO's reports

The health insurance contribution in Albania is rather low, especially from the self-employed in agriculture and the state still subsidises the health care insurance system. The state provides also contributions in respect of non active persons (unemployed, pensioners, ...) which increase the burden of health care expenditures on the central budget deficit.

As already mentioned, the Kosovo's health care system is not based, for the moment, on insurance principle, although a draft law on health insurance is foreseen for the near future.

The share of health care expenditures in the GDP represents important differences between the different countries (see table 21).

Table 21: Health care expenditures as % of GDP

	% of GDP
Albania	3.00%
Bosnia and Herzegovina	12.60%
Croatia	11.60%
Kosovo	5.60%
FYR of Macedonia	5.30%
Serbia	3.00%

Sources: IPO's reports

Public spending on health care is low in Albania, where only 3% of GDP is allocated to the public health sector whereas health care expenditures in Croatia and Bosnia and Herzegovina reach around 12%.

In FBiH, a small solidarity fund has been created in order to equalise provision mainly in tertiary care across the country for expensive medical treatments. The fund is financed through a contribution of 8% on the payroll. This is supposed to be supplemented by an equivalent contribution from the government but this payment has not been forthcoming.

A persistent problem in Croatia is the escalation of costs in health care resulting in persistent budget deficits and uncontrollable expenditures. Despite of various measures that have been introduced to contain spiralling costs of provision of health care services, the problem has persisted. The Health Insurance Fund has suffered from growing deficits in recent years leading to increased pressure to seek out new methods to contain costs.

The difficult employment situation in the region has important impacts on the available funds for health care. In addition to the fact that grey economy is important and deprive the health insurance funds of potential contributions, employers in financial difficulties fail to fulfil their obligations to pay the insurance contribution on behalf of their employees. In some countries, as Croatia, where sickness compensation scheme for workers are relatively generous,

employers use it as an alternative to temporary dismissal. In other countries as Bosnia and Herzegovina, health care contributions for specific categories of people as pensioners and which should be paid to the Health Insurance Fund by other social funds are regularly paid with delays.

Furthermore, several countries are reporting corruption in health care services and the official data on health care expenditures do not take into account informal private payments which are made by non covered persons by health care insurance or in order to have access to better treatments. This problem is linked with low salaries in the health care sector, poor organisation and shortage of basic supplies and essential tools which have reduced moral and motivation of the staff.

3.4. Cost containment initiatives

All the Western Balkans countries have to face important difficulties in balancing health care expenditures and available financial resources. With the predictable pressure which should result from the desire of the population to have access to better health care services, generally linked with the growth of economy, and the increase of costs due to new technologies and drugs, it is necessary to implement measures in order to ensure a better efficiency in the use of the existing human and technological resources taking into account the financial constraints of the health care systems.

□ *Co-payments*

Almost all the countries use co-payment systems (see table 22).

Table 22: Co-payment systems for doctors and in-patient care

	Payment of doctor	In-patient care	Drugs	Exemption or reduction of patient's participation
Albania	None	None	From 0% to 50%	-
Croatia	Co-payment varies according to the type of treatment or category of the insured person	From 0% to 30% depending on treatment and category of persons	From 0% to 75%	Full coverage of costs by compulsory health insurance of certain categories of individuals (children, disabled persons, poor people, blood donors, ...)
Bosnia and Herzegovina	In RS: for all health services, average participation is 10%	In RS: for all health services, average participation is 10%	n.a.	children, disabled persons, women during pregnancy, recipients of social benefits
Kosovo	Yes	Yes	n.a.	n.a.

FYR Macedonia	From 10% to 20% depending on medical treatment	10%	n.a.	When visiting the personal doctor Recipients of social benefits Children
Serbia	Yes (but insignificant and not regulated)	Yes (but insignificant and not regulated)	n.a.	n.a.

Sources: IPO's reports

In several countries, drugs reimbursed by health insurance are divided into different categories determining the percentage of reimbursement.

A new co-payment system has been introducing in 2002 in Croatia for selected services with higher rates for specialist services, diagnostic tests and prescription drugs.

In Macedonia, if health care services are not provided via contract doctors, the costs have to be paid directly by the patient which can apply to have up to 80% of the fee refunded on the basis of the amount that this treatment would have cost with a contract doctor.

In Serbia, the Republican Institute for Health Insurance has prescribed co-payment by beneficiaries of particular services. These revenues are directly used by public health institutions. But the participation fees are considered as insignificant.

However, the development of voluntary supplementary health insurance scheme could reduce the effect of the co-payment measures by shifting to the cost from the compulsory scheme to the voluntary one and thus not reducing nor rationalising the demand for health care.

□ ***Treatment restrictions***

The countries which have introduced co-payment system for drugs use treatment restriction for pharmaceuticals as a way of shifting spending onto patients.

In those countries, drugs not included in the list defined by a specific body, revised annually, setting the minimum and maximum of official prices and the level of reimbursement by the health insurance, have to be fully borne by the patients.

□ ***Development of family doctors and implementation of referral chains***

Many countries are developing primary care based on family medicine model (see table 23). Under this model, family doctors, who generally signed contracts with health insurance funds, operate as general practitioners (GP) who act as gate keepers to refer patients who need more serious attention to the secondary care level provided by specialist doctors or hospitals. This system supposes the training of family doctors to their new tasks.

Table 23: Choice of family doctors and specialists

	Choice of doctor	Access to specialists
Albania	All insured persons have the right to choose their GP within his or her district Changes can be done once a year	For non-emergency treatment, upon referral by a GDP
Croatia	Free choice of primary health care doctor	Upon referral by primary health care doctor
Bosnia and Herzegovina	Free choice of primary health care doctor Changes can be done once a year	Upon referral by primary health care doctor or directly on own expenses
Kosovo	-	-
FYR of Macedonia	Free choice of primary health care doctor Patients have to register with a particular doctor	Upon referral by primary health care doctor
Serbia and Montenegro	n.a.	n.a.

Sources: IPO's reports

The development of referral chains and family doctors acting as gate keeper to secondary care is expected to offer a much more cost-effective system of health care provision and at the same time to improve the quality of the services provided.

In Croatia, the insurance institute is currently preparing for the introduction of a performance-based payment systems that would involve complementing capitation payments with some fee-for-service elements based on the UK experience with decentralised GP fund-holding for prescription drugs.

In many cases, the implementation of systems based on family doctors acting as gate keeper was linked with establishment of system of payments to private doctors on the principle of capitation which also contribute to a better effectiveness of preventive programmes.

In Kosovo, only services obtained in public health facilities or in private health institutions that have an agreement with the Ministry of Health can be financed by the public health care system and the users of health services are required to respect a referral chain.

□ **Regulating and improving hospital management**

Hospitals management and infrastructures in hospitals have gradually deteriorated in many countries over the last years. The re-balance of geographical distribution of staff and equipment is necessary as a rationality in the financing of health care facilities and the implementation of monitoring mechanisms for a better regulation of health care expenditures.

For this purpose, some countries are developing new map in order to better distribute resources in accordance to the needs.

Macedonia has developed new system of contracts with hospitals defining strict budget constraints, and do not provide for new employment. Within this framework, the number of staff within hospital system has been reduced. However, this does not imply that there was a rationalisation of the number of employees in the hospital services.

Croatia is trying to impose ceiling for hospital budgets but the experience has not been successful until now, since the hospitals were incapable to control their expenditures and have exceeded the imposed budget. However, strong incentive measures were planned in order force managers of hospitals to control costs and focus on emergency services by reducing elective admissions. In 2002 case-based payment were introduced for thirty-three high-cost high-volume treatments. The intention is to move more generally towards a comprehensive prospective payment system based on DRGs (Diagnostic Related Groups: Payment based on this system are used to reduce costs of care by providing a fixed price for a specific treatment type).

IV. UNEMPLOYMENT PROTECTION

4.1. Characteristics of the labour market

The economic dynamism reached by the Western Balkans countries after the period of steep economic decline, political turmoil and armed conflict did not translate into lower unemployment rate and improvement of the labour market situation.

The transition toward the free market economy has accelerated economic growth after 2000 but was also accompanied by massive job destruction due to restructuring, privatisation and downsizing of former public firms only partially compensated by job creation in new enterprises.

The liberalisation of the labour market in the region has not contributed to improve the employment situation and has increased the flexibility of workers the precariousness of employment. Furthermore, the high degree of non-observance of the labour legislation has significantly reduced its ability to give effective protection to workers. The low coverage of employees by collective agreements and the weak role played by social partners in the society have not contributed to improve employment security. Fixed-term contracts are increasing, in particular for young people and low-skilled workers and the majority of employees enjoy jobs that are without limit of time.

Moreover having a job does not prevent poverty since many employed people are at a high risk of poverty in circumstances in which the minimum and average wages are very low and do not provide a decent standard of living for the family (see table 24). It is not rare that people working in the formal sector have to take additional job, often in the grey economy, in order to reach a decent level of income.

Table 24: Level of wages and poverty line

	Minimum wage	Average wage	Annual limit of poverty
Albania	10 800 LEK	21 235 LEK	n.a.
Bosnia and Herzegovina	FBiH: 251 BAM RS: 80 BAM	472.50 BAM	2 198 BAM
Croatia	2 050 HRK	5 985 HRK	18 895 HRK (single) 39 681 HRK (family with 4 members)
Kosovo	No minimum	n.a.	n.a.
FYR of Macedonia	No minimum	20 999 MKD	63 197 MKD
Serbia and Montenegro (*)	5 960 CSD	25 392 CSD	4 970 CSD (monthly)

(*) only for Serbia

Sources: IPO's reports

The dynamic growth has been so far jobless and labour market participation remains very low (see table 25). The ongoing and planned privatisation processes should worsen the present situation and new enterprises are not creating enough jobs to compensate the phenomena.

Table 25: Labour market participation

	Age 15-64 % of total population	Activity rate / population age 15-64 years
Albania	64.3%	52.64%
Croatia	67.9%	54.44%
Bosnia and Herzegovina	69.6%	27.79%
Kosovo	61%	n.a.
FYR of Macedonia	69.0%	44.24%
Serbia	67.4%	43.54%

Source: World Bank and author's calculation on the basis of IPO's reports

The economic situation led to high unemployment rates (see table 26). Between 2000 and 2004, almost all the countries have experienced an increase of unemployment, except Albania and Croatia. But, even in those two countries, unemployment rate remains high.

Table 26: Unemployment rates

	Unemployment rates	
	2000	2004
Albania	22.7%	15.2%
Bosnia and Herzegovina	n.a.	n.a.
Croatia	16.1%	14.3%
Kosovo	n.a.	n.a.
FYR of Macedonia	32.4%	36.7%
Serbia and Montenegro	12.6%	16.4%

Source: World Bank, GenederStats

However, the figures on unemployment mentioned in table 26 do not give the whole picture and unemployment rates based on official statistics (through registration) and rates based on surveys differ a lot. In Albania and Croatia, the figures related to registered unemployment have fallen partly due to administrative reasons as more rigorous job search criteria imposed on unemployed people. In the other countries, official registered unemployment rates are higher than the one mentioned in this table, due to the fact that many people are working in the grey economy (representing in some countries around 30% of the active population) but are also registered as unemployed.

The most disadvantaged groups in the labour market are the long term unemployed who have lost jobs due to economic restructuring and the young unemployed who find difficult to get a

first job in a stagnant labour market with relatively low rate of new hiring and lay-offs. Women are also more concerned by unemployment than men (see table 27).

Table 27: Female employment and unemployment

	Labour Force, female (% of total labour force)	Total unemployment, female (% of total labour force)
Albania	42%	18.3%
Bosnia and Herzegovina	48%	n.a.
Croatia	45%	15.7%
Kosovo	n.a.	47.2% (*)
FYR of Macedonia	39%	36.3%
Serbia and Montenegro	42%	16.4%

Source: World Bank - GenderStats

(*) World Bank 2003, Kosovo Labour Market Study

Furthermore, registered unemployment often reflects only urban employment because in some countries as in Albania, employment services operate only in urban areas. This is an important aspect since almost half of the population in the region is living in rural areas and is not taken into account when observing the level of employment.

Unemployment of the youngest workers is a major concern in Kosovo, in particular in the medium and long term. The registered unemployment rate is between 50%-60% while the World Bank estimated of the unemployment rate range from 23% to 33%. Providing effective solutions to the problem of youth employment has become the key priority for Kosovo government as it is a potential destabilising factor in the society. During the next years, almost 200,000 youngsters will enter the labour market while the number of people reaching the retirement age will be just one third of that. Furthermore, job opportunities are very rare in the country and the already extremely high level of unemployment should worsen the situation.

4.2. Employment benefits and population covered

Unemployment insurance systems are quite recent in the region and have been generally developed in the 1990s in order to protect workers in situation of unemployment due to restructuring of the economy and the adaptation of the local enterprises to the rules of free market economy.

Except in Kosovo where the current legislation does not foresee any benefits for unemployed persons, all the Western Balkans countries have created employment services in charge of providing unemployed people with assistance and benefits. These services are generally governed by administrative councils composed of representatives of employees, employers and the State.

Only a small proportion of the job seekers can benefit from the unemployment insurance. Only employees are entitled to unemployment benefits, provided they:

- have the required insurance record
- are involuntarily unemployed
- are registered in employment services as being unemployed and willing to work or participate in training or retraining programmes
- have no other benefits from social insurance

Table 28: Total unemployed people

	Total unemployed persons	Total unemployed persons receiving unemployment benefits
Albania	154 745	11 244 (unemployment benefits) 118 566 (unemployment assistance)
Bosnia and Herzegovina	FBiH: 331 417	FBiH: 275 777 RS: 147 749
Croatia	317 577	76 710 (unemployment benefits) 97 (unemployment assistance) 2 640 (other)
Kosovo	-	-
FYR of Macedonia	309 286	44 230
Montenegro	n.a.	n.a.
Serbia	859 728	76 584

Sources: IPO's reports

The huge difference between the number of beneficiaries of unemployment benefits and the registered unemployed (see table 28) has several explanations:

Firstly, the schemes discriminate against some groups of unemployed, e.g. young people with labour market entry difficulties, the less skilled who have poor job chances and belong to the category of the long-term unemployed, the self-employed and especially the self-employed in agriculture, and the older workers who have been unemployed more than the maximum duration of benefit.

Secondly, some of the people registered as unemployed people are in fact employed in the informal sector which represents in some countries, as already mentioned above, around 30% of the economic activity. However, these “non official workers” are often confronted to poverty with salaries below the official minimum wage level and not protected by the labour legislation.

In some countries, the motivation of people to be registered as unemployed in employment services is linked to the fact that in this case they can benefit from health care insurance without contributing to it.

This is particularly the case in Macedonia where the overwhelming majority of people who register as unemployed are not eligible for unemployment benefits and are sometime employed in the informal sector, works on short-term or part-time contracts, are self employed or recipients of remittance income from a household member working abroad. These people have a strong incitation to register as unemployed in order to obtain free health

coverage. This represents a formidable administrative burden for the employment services but has also consequences on available funding for active employment policies.

The unemployment benefits are a flat rate or earning related type depending on the countries, provided on the basis of compulsory unemployment contributions and the entitlement depends upon a person's contribution record (see table 29).

Table 29: Unemployment benefits

	Benefit rate	Minimum insurance record	Maximum duration of payment	Min./max. benefit level
Albania	Flat rate fixed level decided by the Council of Minister	12 months	2 years if unemployment interrupted by periods of work	At least for a minimum living standard annually indexed with regard to price index development of selected commodities
Bosnia and Herzegovina	FBiH: Flat rate linked to the average monthly salary in Canton for past 3 months RS: Up to 10 years of insurance record: 35% of average salary earned in preceding 3 months of work Above 10 years of insurance record: 40% of average salary earned in preceding 3 months of work	8 months	12 months	FBiH: Min.: 30% of the average salary in Cantons Max.: 40% of the average salary in Cantons RS: Min: 161 KM Max: average salary
Croatia	80% of the last three months average wage during the first 78 days 60% during the rest of the entitlement period	9 within the last 24 (*)	12 months	Min. 845 HRK Max: 1 000 HRK
Kosovo	-	-	-	-
FYR of Macedonia	50% of the last 24 months average wage for people entitled to benefits for up to 12 months then 40% of the last 24 months average wage	9 months	14 months	No minimum (possibility to combine with social assistance if level lower than the guaranteed minimum income)

				Max.: 80% of the average net wage (9 930 MKD on March 2005)
Montenegro	Flat rate corresponding to 60% of minimum wage	9 months	n.a.	n.a.
Serbia	First 3 months: 60% of the average wage over the previous 3 months After: : 50% of the average wage over the previous 3 months	12 months	24 months	Min.: Minimum wage in the month for which the benefit is paid Max.: the latest reported average net wage of the economy

() in Croatia, unemployed persons who have previously completed 35 years (men) or 30 years (women) of employment periods, maintain the entitlement until the engagement in new employment or until the other cancelling condition arise*

Sources: IPO's reports

In Croatia, unemployed persons with long insurance (35 years for men and 30 years for women) maintain the entitlement until the engagement in new employment or entitlement to pension.

In Bosnia and Herzegovina, workers of Republika Sepska who are dismissed through privatisation or bankruptcy of a company are entitled to between 3 and 12 month's salary in compensation.

In Albania, unemployed persons who undergo vocational training program and who are eligible for unemployment benefit are entitled to unemployment assistance. Furthermore, in this country as in Macedonia, persons entitled to unemployment benefit but still lack 5 years to become eligible for old age pension receive benefits until they satisfy the retirement age conditions.

Although unemployment benefits are received by only a small number of person, the amount is generally low and does not provide the beneficiaries with sufficient financial resources for a decent standard of living.

As employees with low salaries in the formal economic sector, unemployed people have sometimes to work in the grey economy in order to obtain additional income to their unemployment benefits with the risk of being discovered by the administration and to lose their entitlement to unemployment benefits.

4.3. Financing and control

Unemployment insurance is financed by contributions paid by employees and/or employers (see table 30) and collected by the employment services themselves or by the tax administration.

Table 30: Contribution rates in percentage of earnings

	Employer	Employees	Thresholds
Albania	5% gross earnings	None	Monthly wage: Min: 11 376 LEK Max: 56 881 LEK
Bosnia and Herzegovina	FBiH: 2% gross earnings RS: 1% after tax reduction	FBiH: 0.5% gross earnings RS: None	n.a.
Croatia	1.7% gross earnings	None	Monthly wage: Min: 1,858.50 HRK Max: 31,860.00 HRK
Kosovo	-	-	-
FYR of Macedonia	1.6% gross earnings	None	n.a.
Montenegro	Global contribution (excluding for pension and invalidity insurance) from 9% to 18%	None	n.a.
Serbia	0.75% gross earnings	0.75% gross earnings	Min.: 40% pf average monthly wage in the Republic of Serbia paid in previous quarter of the year Max.: five time average monthly wage in the Republic of Serbia

Sources: IPO's reports

Additional funds from the government are generally made available to cover additional costs of employment services (e.g. administrative costs and active employment policy measures).

However, due to the extensive grey economy, but also to the fact that some of the firms in the formal sectors are not paying their social contribution, the funding for unemployment benefits and active employment policy remain low.

State labour inspectorates are supposed to enforce the labour legislation and control enterprises in order to check that they are paying the social contributions corresponding to the real wages of their employees.

However, some countries report that the labour inspectorates do not have either appropriate or sufficient administrative infrastructures, nor adequate resources to carry out their tasks effectively.

Labour Inspectorates are often very inactive and do little to enforce the regulations against employers who do not pay their social contributions. This appears to be mainly due to two reasons:

- the low salaries of the inspectors are insufficient to motivate them and make them vulnerable to side-payments by employers;
- the inspections are not always completely independent and come under political and other type of pressures which adversely affect the effective administration and implementation of the labour law.

4.4. Active labour policies

In order to combat the high level of unemployment, the Western Balkans countries are implementing a range of active policy measures in order to encourage employment, in particular for specific target groups as young or low qualified unemployed people.

Employment services are in charge of the implementation of these measures including credits, grants, subsidies and retraining. Specific programmes are also focused on support provided for employees who become redundant as a consequence of privatisation and bankruptcy.

In many countries, it is considered that there is insufficient funding to support active labour policies and most of the employment budgets are spent on passive measures due to the high level of unemployment. Furthermore, the effectiveness of these measures is still uncertain.

However, the strengthening of active labour market policy measures should be a priority in the region. These measures will increase the financial burden on the unemployment insurance and the state budget on the short-term. But if they are efficient, they should decrease the level of unemployment, increase the level of productivity of workers through vocational training and increase the level of payment of social contributions thanks to a better rate of activity in the formal sector.

V. SOCIAL WELFARE

5.1. Poverty in the region

As already mentioned in part I of this report, the eradication of poverty is one of the main challenges facing by the Western Balkans Countries.

The development of new forms of society and economic environment has placed heavy demands on the capacity of the young national institutions and systems. While the lack of comparable data makes accurate analysis difficult, it is clear that poverty rates increased sharply over the 1990s throughout the region.

Nearly a quarter of the population of the region is concerned by poverty (see table 6). Inequality in term of level of consumption is not high and Gini coefficient, which measure inequality on a scale of 0 (perfect income equality) to 1 (total inequality) gives figures of 0.28 to 0.33 across the region. However people are vulnerable to failing into poverty as substantial numbers of people just live above the official poverty line.

As previously mentioned, poverty has a regional character, is higher in areas affected by conflicts and is concentrated in a district band encompassing Kosovo and its immediate surrounding: north and northeast Albania, Southern Serbia and northern Macedonia.

Furthermore, income poverty concerns in particular the following specific groups of people:

- Children and young people
- Female-headed households
- Large families
- Disabled people
- Unemployed and precarious job holders with low level of education
- Ethnic minorities such as Roma
- Refugees and displaced persons

However, poverty presents different aspects depending on the countries.

In Albania, according to the Living Standards Measurement Survey (LSMS) carried out in 2002, 25% of the Albanian population lived in poverty while up to 5% of the population lived in extreme poverty. Rural and mountainous areas have a higher level of poverty with 66% more poor people than Tirana and 50% more than in other urban zones, while population movement to the main cities has placed a heavy strain on the resources to deliver social services in urban areas.

According to the Poverty Reduction Strategy Paper produced in March 2004, 19.5% of the population of Bosnia and Herzegovina was living below the poverty line. In FBiH, 16% of the population was considered to live in poverty and the rate reached 25% in RS.

The population groups most at risk of poverty are children below the age of five, displaced persons and refugees, unemployed persons and people with a low level of education.

In 2003, the at-risk-of-poverty rate (compared to the at-risk-of-poverty threshold) was 16.9% in Croatia, which represented a fall from the 18.2% rate recorded in 2002 and which reflected the reducing of poverty due to the strong economic growth in the country. Poverty concerns in particular specific groups living in the war affected areas and has a strong gender and age dimension. Women are more likely to be in poverty than men, but the worst affected are persons over 65 years of age among whom the at-risk-of-poverty rate in 2003 was 27.9%. The at-risk-of-poverty rate among the unemployed was 32.4%, whilst the group with highest at-risk-of-poverty rate was one-person households over the age of 65 for whom the at-risk-of-poverty rate was 41.8%.

Kosovo is the poorest country of the region. Whereas it is difficult to have accurate and reliable data for the country, the World Bank estimates that 37% of the population lives below the poverty line and 12% lives in extreme poverty.

Data on poverty for Macedonia indicate that the phenomenon is increasing with 30% of the population below the poverty line, up to 22% in 2000. Due to the low per capita income, absolute poverty rates are higher than in any country in the Western Balkans apart from Kosovo. Poverty concerns in particular minority ethnic groups, people with low level of education and women.

It has been estimated that 13% of the Montenegrin population lives below the absolute poverty line, and about 60% of the population lives below the relative poverty line. UNDP (2002) surveys have reported that 20% to 30% of the Montenegrin population can be considered to be living in poverty. The most vulnerable are members of large families, the elderly living alone, the unemployed and those without pension. Poverty is especially related to unemployment and gender in a situation when more than 40% of the labour population is unemployed while women as a group are more at risk of poverty than men.

10.6% of the Serbian population is supposed to live below the poverty line, while one third are living in relative poverty, and almost a fifth lived in absolute poverty. The population groups most at risk of poverty are people with a low educational level, the unemployed, the elderly (who make almost a quarter of the poor), children and people living in households with five or more members (the poverty risk for this group is 26%). The poverty index of the rural population (14.2%) was almost twice as high as the poverty index of the urban population.

The fact that poverty and social exclusion contribute significantly to the political and social instability of the region and have provided an environment that encourages the activities of organised criminals strengthened the need for the local governments to take appropriate measures to provide the most vulnerable groups with efficient social safety net.

5.2. Benefits and services provided to the vulnerable groups

□ *Child and family benefits*

Family benefits are generally provided on means tested basis. The amount depends on the composition of the family (number and age structure of family members, capacity to work of the parents) and on the total revenues and income of the household (see table 31).

However, in FBiH of Bosnia and Herzegovina family benefits which amount depends on the number of children are linked to the economic activity and payment of social contributions and cover only workers. In Serbia, the parental supplement is an instrument of population policy and is granted only to mother who is citizen of Serbia. The same citizenship rule applies for special child allowances or assistance in other countries.

Table 31: Family and child benefits

	Family benefits	Other family and child benefits (not exhaustive)
Albania	No family benefits	Supplement for dependent children to person who get invalid pensions, long term benefits because of labour accident or professional diseases, unemployment benefits Disability benefits for handicapped children
Bosnia and Herzegovina	<p>FBiH: The basic amount regulated on Cantonal level depending on the number of children (e.g. in Canton Sarajevo: up to 56 BAM)</p> <p>Brcko District: Means tested benefits Child raising allowance: 15% of average earnings Child benefit 10% of average earnings (amounts increased by 50% in specific case, e.g. orphans, invalid parents, ...)</p> <p>RS: Means tested benefits Benefits provided from the 2nd to the 4th child (amount: from 26.53 BAM to 56.85 BAM)</p> <p>Handicapped children and children in foster care receive basic amount of 56,85 BAM (if not placed in social institutions)</p>	<p>Birth and adoption grants FBiH: Amount varies between Cantons: from 199 BAM to 100 BAM</p> <p>RS: One time benefit in kind - “ baby package”</p> <p>Brcko District: Amount corresponding to 25% of average earnings</p> <p>Allowance for single parent Brcko District: child benefits increased of 50%</p> <p>Special allowances for handicapped children: Increased basic child benefits, amount varies between Entities, Brcko District and Cantons.</p>
Croatia	Means tested benefits. Benefits amount depending on the monthly income per family member (max. benefit 299.34 HRK)	Partial State subsidies for children staying in day care centres

	Higher rates for sole parents (max. benefit 344.24 HRK), double orphan or a handicapped child (max. benefit 374.18 HRK), children with disability, irrespective of family income (benefit: 831.50 HRK)	
Kosovo	No family benefits	Means tested assistance in cash and in kind to family in need
FYR of Macedonia	Means tested benefits. Amount depend on the age of the child and based on the national average net salary in the first half of the previous year (from 4.60% - corresponding currently to 537 MKD– to 7.30% - currently 853 MKD) Higher amount for children suffering from certain types of illness (3 156 MKD) Maximum amount: 1800 MKD	Special allowances for handicapped children: Benefit amount is 27% of the national average net salary (benefit is currently 3 156 MKD). Benefit for the first newly born child in the family: Amount corresponding to 25% of the average national salary
Montenegro	Means tested benefits Amounts depending on the numbers of family members (from €50 to €90)	Baby package (€ 100) Child allowances for special situations (from €15 to €25)
Serbia	Parental supplement (one off benefit) Amount increasing with the number of children (from 70.967 CSD for the second child to 170.311 CSD to the 4 th child)	Means tested child allowance paid for the first children Compensation of kindergarten costs based on means tested and for handicapped children,

Sources: IPO's reports

□ **Social assistance**

In general, when people are unable to get sufficient financial resources through work or social insurance benefits, they are entitled to social assistance which is supposed to provide the most basic needs for people when other social safety nets do not offer appropriate benefits or services.

Table 32: Social benefits to disabled people and other people in needs

	Social assistance to disabled people	Minimum guaranteed resources
Albania	Minimum monthly income guaranteed to person disabled since birth or less than 21 years	Monthly benefits for families in needs In 2003: 3 189 LEK (27€) per month in urban areas and 2 117 LEK per month (17€) in rural areas
Bosnia and	Allowances for assistance and care	n.a.

Herzegovina	by another person	
Croatia	600 HKR (840 HKR if living in family)	400 HKR if capable of work 320 HKR if living in family 920 HKR for pregnant women (amounts increased if children)
Kosovo	Monthly payment depending on the family members (from 35 € to 75 €)	
FYR of Macedonia	Permanent financial benefit for person unsecured and unable of working: From 1 700 MKD to 4 200 MKD depending on the number of family members	
Montenegro	50€ for person who became incapable for independent life before age of 18 Allowances for assistance and care by another person	Cash assistance for person or family who are, due to special circumstances, in state of need
Serbia	Allowances for assistance and care by another person	From 16% to 32% of average national monthly wage depending on the number of family members

Note: due to the extensive number of social assistance benefits provided in the countries, it was not possible to present a complete picture for all types of benefits

Sources: IPO's reports

In Bosnia and Herzegovina, Serbia and Montenegro, only national citizens are entitled to social assistance benefits, whereas in the other countries, only permanent residence in required.

In addition to benefits and allowances mentioned in the above tables, family and people in needs can benefit in all the countries from social assistance services, including direct social care or counselling, which are provided by public services or NGOs to vulnerable groups (children, women, elderly, handicapped or ethnic minorities).

Furthermore, cash or in kind assistance can be obtained by people who find themselves suddenly in situation of social needs by the local community.

The level of family and social assistance benefits is far from being homogeneous in the region, some countries as Croatia, Montenegro and Serbia being more generous than the other. However, the level of benefits does not provide sufficient income for the entitled persons or family to protect them from poverty.

One of the reason why the social assistance benefits are low is because that the level of wages of paying jobs in some sectors (in particular in the agricultural sector) are already very low. Low level of benefit avoids poverty gap and disincentive effects on low paid workers. Furthermore, the low budget constraints of the national and local levels are also one of the reasons explaining the level of these benefits.

Since many countries have decentralised the management of the social assistance, the level of the benefits received depends a lot on the financial resources of the municipalities and

average monthly welfare payment are sometimes below the level set by the legislation. Furthermore, in the poorest areas, sometimes poorest people do not receive anything and are only supported from charities organisations.

5.3. Population covered

Countries which are not requiring the nationality in order to be entitled to welfare benefits and services, imposed generally a minimum period of residence in the country for the non national citizens in order for them to apply to family and child benefits or social assistance.

Social assistance is generally provided at the local level by Centres for Social Welfare (CSW). These services are in charge of the identification and verification of the worst cases of poverty and have to ensure that population in need fulfil the relevant criteria to benefit from social welfare payments or to have access to social assistance services. Being nearer the population and more familiar with the local context specificities, staff working in CSW are supposed to be able to make a better assessment of a family's needs for social assistance on the basis of pre-defined means tested criteria.

However, the efficiency of the Centres for Social Welfare still have to be improved in many countries in order to better target assistance to the families and people in needs, but also to update regularly the list of persons entitled to assistance. Furthermore, it is important to improved coordination between the different public and private organisations providing the assistance, at national and local levels, in order to increase the coverage of the social welfare system.

It is quite difficult to know the exact number of beneficiaries of social assistance in the region. The estimated population covered by social welfare ranges from 5% (Croatia) to 15% (Kosovo) of the total population. The number of people concerned is generally higher in rural areas and war affected areas. The development of new criteria to identify the most needed people and the establishment of new poverty lines seem to have increased the targeting of social assistance. However, the final results of these measures were different depending the region, sometime by decreasing the number of entitled persons, and sometime by increasing this number. This evolution was generally not linked with evolution of poverty phenomena.

5.4. Financing

All the countries, except Bosnia and Herzegovina, are implementing decentralisation of the provision and financing of the social welfare sector.

Contrary to the other countries, FBiH plans to transfer the social services from cantonal level to entity level in order to ensure a greater equality of service provision throughout the federation and to enable the government to better control budget expenditures.

The state budget and the municipality budgets are financing the social welfare systems. The countries have to face a problem due to the discrepancy between the growing needs of the population and the extent of funding allocated to the benefits. Even though public support to the poor is a big burden on the budgets, the amounts of social welfare benefits are insufficient

to meet the existential minimum for providing decent standard of living. The current systems would be financially unsustainable without donations and loans.

The decentralisation process enables to better adapt the social welfare policy to the real local needs. However, without appropriate mechanisms of financial redistribution between the different regions, it can also worsen inequality between the richest and the poorest regions, depending upon the budgetary capacity of the municipalities. For example, it has been reported that, in FBiH, some Centres for Social Welfare provide social assistance for vulnerable groups up to 150 €, whereas in the poorest cantons, the beneficiaries of social assistance receive only 15 €.

VI. CONCLUSION

This study on social security financing issues for the Western Balkans countries is far from covering in details all the social benefits for all the countries of the region and give mainly global analysis and some trends on the present situation and possible financial impacts of current or plan reforms in the social field.

Furthermore some question as migrant workers and the problem of displaced people or refugees, often not taken into account in the analysis of this report, should certainly be analysed in depth taking into account the important proportion of the population they represent in some countries and their specificities regarding social needs.

Even if all the countries of the regions are implementing impressive reforms in the social field in a very limited period of time, they still have to face big challenges, in particular for finding sufficient financial resources to meet the growing social needs of the population.

The effectiveness of the reforms in the social field will be closely linked with the economic growth and the evolution of the labour market. Many authors have stressed the complexity of the links between social, economic and environment process, which can either support each other or imply difficult trade-off between competing goals. Governments have to find the right balance between appropriate level of social contributions and taxes for financing increasing social protection expenditures on one hand, and the necessity to have social contributions and taxes at an acceptable level for the population and firms in order to avoid tax evasion and to fight against the grey economy, on the other hand.

The region has to move from a traditional curative role of social protection towards a greeter focus on active policy measures in order to insure a better inclusion of young workers and other vulnerable peoples in the labour market and in the society in general. This problem is not typical to the Western Balkans Countries and concerns also all the EU Member States. The main difference is the important problem in the region of unemployment and poverty and the high financial constrains which worsen the difficulties to find appropriate solutions.

Many purely liberal approaches see social security as burden on economic performance. However, mid and long term effects of social security expenditures can also contribute to ensure a better life not only for the individuals concerned but also for families, communities and society at large. Instead of being a burden, social security can be considered as an investment in the future which can enhance a country's economic stability and competitiveness.