

Advancing Social Protection in the Western Balkans: Opportunities for Reform*

April 2023

Reforming social protection systems has become more important recently due to various global crises, drawing attention to this unfinished agenda in the Western Balkans.¹ The six Western Balkan countries, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, need social protection² more than ever. Millions of people in the region remain vulnerable to a range of well-known risks, with shocks and new sources of vulnerability exacerbating the urgency of reform. These countries are taking steps to improve their social protection systems to make them fairer, more sustainable, more effective and better able to respond to people's needs. However, progress is slow and uneven.

Social protection systems across the Western Balkans are comprehensive and complex, spanning multiple objectives. To reduce poverty and vulnerability, reforms are necessary, and governments should focus on four main areas: (i) establishing strong foundations for social protection systems to better respond to crises; (ii) expanding coverage and effectiveness of poverty-targeted programs to improve inclusion and support for vulnerable populations; (iii) facilitating access to better employment opportunities and promoting labor market inclusion; and (iv) ensuring the financial sustainability of social protection programs for long-term effectiveness.

Social Protection needed more than ever across the Western Balkans

Socio-economic outcomes are still poor across the Western Balkan countries. The six Western Balkan countries face high levels of poverty and struggle with poor labor market outcomes. The share of the population living on less than \$6.85 a day (2017 PPP), the international poverty line for Upper Middle Income countries, ranged from 12 percent in Serbia to 34 percent in Kosovo, compared to 4 percent in the seven small transition countries of Eastern Europe that are already part of the EU (7STEE countries) and 2 percent in the EU as a whole (Figure 1).³ Only about one in two people of working-age are employed in the Western Balkans, ranging from a low of 31 percent in Kosovo to slightly above 60 percent in Serbia and Albania (Figure 1). The share of working-age women in employment averages 46 percent, reaching a dismal 16 percent among

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¹ This summary of the key issues on social protection are based on detailed social protection situational analyses for Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

² Social protection in this note includes social assistance, social services, social insurance, and employment and labor market services and programs.

³ The 7STEE countries are Bulgaria, Croatia, Estonia, Latvia, Lithuania, the Slovak Republic, and Slovenia.

women in Kosovo. About four in ten people (five in ten women) of working-age are inactive (i.e., neither employed nor looking for employment) in the Western Balkans. Two out of ten young people aged 15-24 are not in education, employment or training.

Millions of people across the region, including children, adolescents, older people, people with disabilities, and the poor, remain vulnerable to a range of well-known risks. Economic vulnerabilities in the region arise from various challenges, including economic volatility, exposure to environmental risks like floods and earthquakes, high rates of non-communicable diseases, and other related factors. All the Western Balkans countries will experience a substantial rise of the old age dependency ratio (population aged 65 or more divided by the number of individuals aged between 15 and 64) over the next three decades. By 2050, the average ratio for the Western Balkans (excluding Kosovo, where data is lacking) is projected to be 43.7 percent, or more than a third higher than the average in the ECA region. The ratio is projected to rise by nearly 20 percentage points during this period, or by more than most countries in ECA. All of the countries will need to consider the implications of population ageing for increases in the demand for long-term care, labor systems and employment services, as well as pension sustainability. Children, adolescents, and elderly people often face particular risks and vulnerabilities that require specific social services, such as child protection and foster care for children, and home-based care and support for the elderly. At present, these services are underdeveloped across the Western Balkan countries. In addition to low employment shares, many of those who do work are working

informally, therefore often in low-productivity jobs not covered by social insurance or, as evidenced recently during governments' response to the COVID-19 pandemic, not eligible for wage subsidies or any other form of support extended to those working in formal employment, such as unemployment benefits.⁴

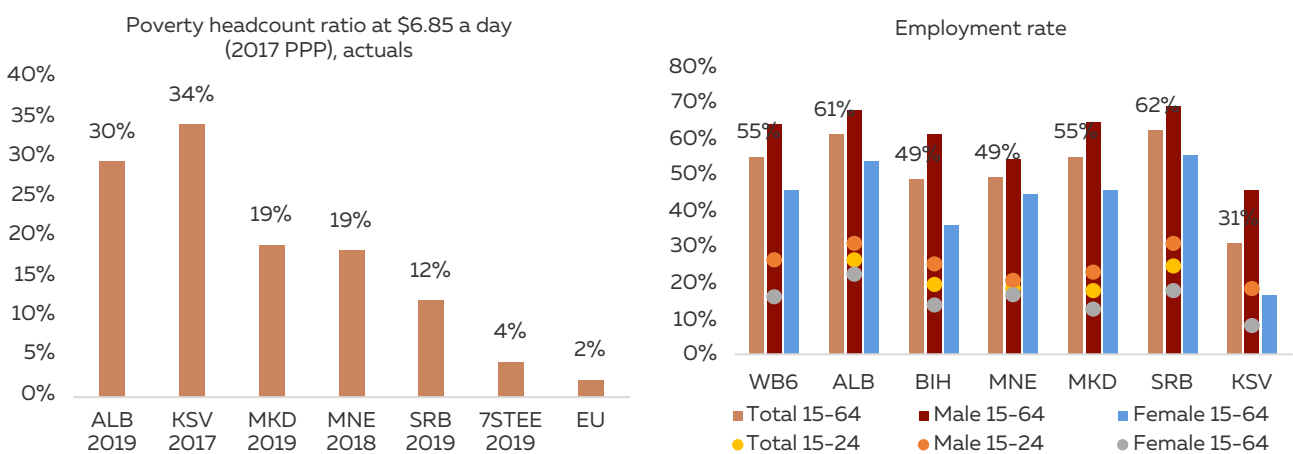
Shocks and new sources of vulnerability exacerbate the urgency to strengthen social protection systems. Recent shocks such as the COVID-19 pandemic, the war in Ukraine, or the catastrophic earthquakes in Türkiye and Syria have significant effects on the Western Balkans, including through higher food and energy prices and lost remittances, among others. Countries in the Western Balkans are themselves also vulnerable to natural disasters, which are projected to become more frequent with climate change. We know from previous natural disasters, such as the earthquake in Albania, that the poor are most affected by disasters, with long-lasting impacts that undermine gains in human capital and poverty reduction.⁵

Opportunities for Reform Within Established Systems

Improving funding and program design is crucial to better support poor families

Western Balkans countries devote substantial expenditures to social protection, but contrary to OECD countries, pensions crowd out other social programs in the Western Balkans. Total spending on social protection across the six countries ranges

Figure 1: The Western Balkans countries face similar socio-economic challenges



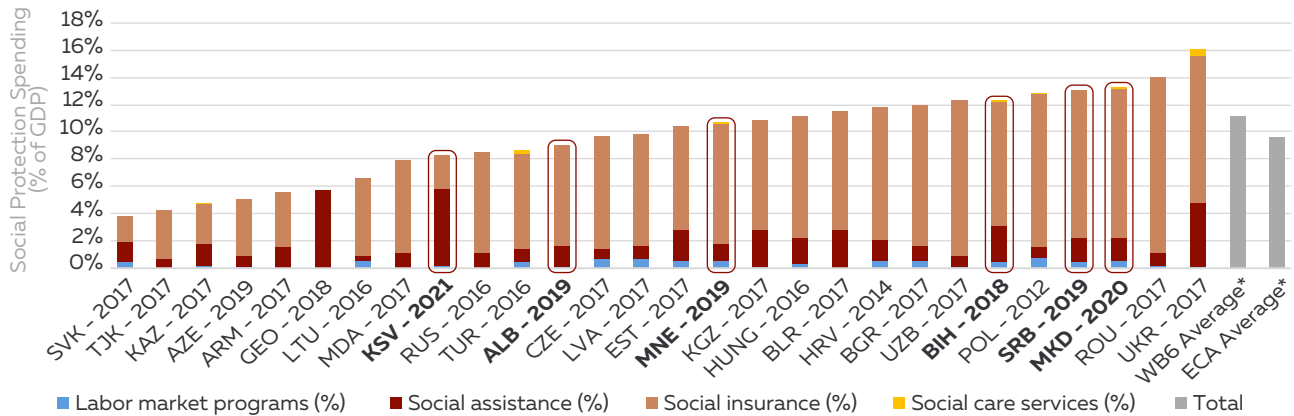
Source: WDI/Eurostat (left panel); SEE Jobs Gateway (right panel).

Notes: Poverty headcount ratio at \$6.85 a day (2017 PPP), actuals (left panel). Bosnia and Herzegovina is excluded due to lack of comparable data, as it is the only country in the WB which does implement the EU-Survey on Income and Living Conditions and the last published Household Budget Survey is from 2015; Data for 2021 (right panel).

⁴ For example, in North Macedonia only between 4-6 percent of registered jobseekers receive unemployment benefits.

⁵ For example, see: Government of Albania. 2020. Post-Disaster Needs Assessment. Volume A/Report Tirana; or Hallegatte, S. et al. 2016. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters.

Figure 2: The Western Balkans countries spend considerable resources on social protection



Source: Social Protection Expenditure and Evaluation Database (SPEED).
Note: Averages in the top figure marked with * are arithmetic averages of the latest year available.

from 6 to 13 percent of government expenditures, for an average of about 10 percent, or slightly more than the average for the emerging market and developing economies in Europe and Central Asia (ECA) (Figure 2). As in most emerging market and developing countries in the region, the bulk of social protection expenditures is devoted to social insurance, largely pensions. All Western Balkan countries spend over 70 percent of social protection spending on pensions, and some even close to 90 percent. The median proportion of social protection spending that goes to pensions in OECD countries is 40 percent, ranging from a low 15 percent in Iceland (around 20 percent in Australia and New Zealand) to a high of 60 percent in Greece and Turkey.⁶

The majority of poor and vulnerable families in the Western Balkans are left without support, as most social assistance spending is not poverty-targeted; spending on strictly last-resort income support is minimal. The share of government funds going to social assistance programs is less than 2 percent in all six countries except Kosovo (4.4 percent) and Bosnia and Herzegovina (2.7 percent). The six Western Balkan countries devoted an average of 0.3 percent of GDP to targeted last-resort income support (LRIS) programs (Figure 3), which amounts to about 15 percent of total social assistance spending. For example, war veterans and their families receive most social assistance spending in Bosnia and Herzegovina, irrespective of their poverty level. In Kosovo, payments to war veterans and other war-related pensions, old-age basic pensions (provided to all citizens 65 years of age or older regardless of income⁷), and disability pensions make up over 90 percent of cash transfer spending.

Due to low funding, social services and labor market programs across the region are lacking. Social ser-

vices account for a very low share of GDP, ranging from 0.04 percent of GDP (6 percent of social protection spending) in Albania to 0.27 percent of GDP in Serbia.⁸ Total spending on labor market programs ranges from 0.08 percent of GDP (Albania) to 0.48 percent (Montenegro), compared to an average of 0.65 percent in the seven small transition countries of Eastern Europe that are already part of the EU and 1.19 percent in the EU as a whole (Figure 4). Active labor market programs (ALMPs), including vocational training, serve only between 5 and 9 percent of the registered unemployed, in part because in some countries many register only to get benefits. As is common, spending on unemployment benefits⁹ exceeds that on ALMPs.

Poverty-targeted social assistance is inadequate...

Social protection systems across the Western Balkans offer inadequate protection for poor and vulnerable families even during normal times, as eligibility is predominantly tied to categorical criteria. In Bosnia and Herzegovina, Kosovo and Serbia, a large share of social assistance spending goes towards war veterans and their families, irrespective of their poverty level (Figure 3). Besides war veterans, the most used categorical criteria across social assistance programs in the Western Balkans are children in the family and disability/dependency status. As a result of these categorical criteria¹⁰ in combination with low funding, the share of social assistance funds going to the poorest families is much lower across the Western Balkans than in the rest of the ECA region (Figure 3).

Trends in the relative size of poverty-targeted versus categorical programs differ across the six Western Balkan countries. Kosovo, Montenegro

⁶ OECD data on social and pensions spending. Year: 2019. Available at: <https://data.oecd.org/social-exp/social-spending.htm#indicator-chart>

⁷ As long as they are not receiving another pension.

⁸ Years are latest available data.

⁹ With the exception of Kosovo, which does not provide unemployment benefits.

¹⁰ However, the high correlation between poverty and some categorical criteria (particularly disability) means that even categorical programs can reach a significant share of poor households.

Figure 3: Most social assistance spending is not targeted on the basis of poverty

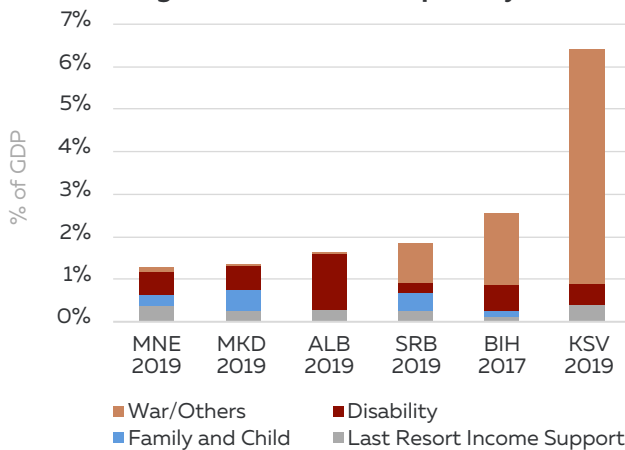
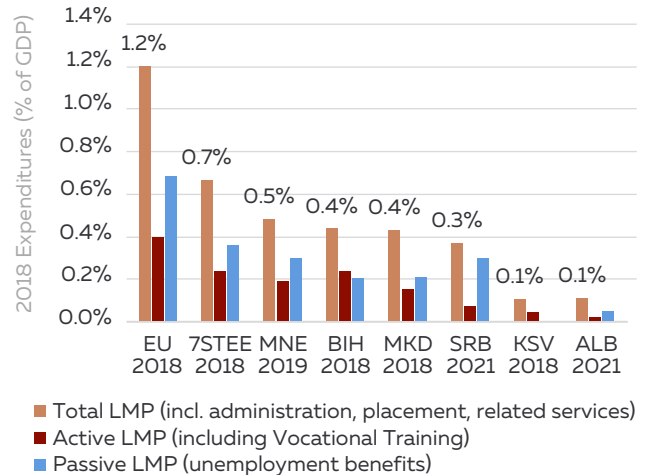


Figure 4: Spending on labor market programs is low



Sources: Left Panel: SPEED. Right Panel: EU-27/7STEE: Eurostat; North Macedonia: Administrative Data; Montenegro: MONSTAT; Kosovo: Paun Jarallah et al. 2019; Albania: Administrative Data NAES. Bosnia and Herzegovina: Bosnia and Herzegovina Statistics Agency; Serbia: World Bank SPEED (2022).

Note: Spending on social assistance in Kosovo mostly includes basic pensions and war veterans and war-related pensions.

and Serbia have seen a rise in the share of categorical programs in recent years, while North Macedonia recently replaced a series of fragmented programs with a guaranteed minimum income program, imposed an income threshold for eligibility for the parental allowance, and introduced a social pension for the low-income elderly. Simulations suggest that these reforms in North Macedonia should significantly increase coverage of the poor and the share of household expenditures met by social assistance programs.¹¹

Besides low coverage rates, cash benefits from poverty-targeted programs offer inadequate support and at the same time may create work-disincentives for formal employment. In Montenegro, the only poverty-targeted cash transfer program provides an individual without other income less than 15 percent of the minimum wage, although some beneficiaries are eligible for other programs in addition (child allowance or electricity subsidy). The average benefits from the two main poverty-targeted programs in Serbia (Financial Social Assistance, FSA and Child Allowance, CA) amount to only 20 and 10 percent, respectively, of the absolute poverty line (single adult) for the poorest quintile. The average transfer per household for the main poverty program (Permanent Social Assistance, PSA) in the Federation of Bosnia and Herzegovina (FBiH) represents between 12 and 35 percent of the minimum wage, varying by canton, and in Republika Srpska (RS) 40 percent of the minimum wage for a two person household. In Kosovo, by contrast, the main poverty program (Social Assistance Scheme, SAS) represents about

39 percent of the total consumption of beneficiaries in the first quintile for consumption, and therefore covers a larger portion of the consumption of the poorest households than poverty-targeted programs in most countries in Europe and Central Asia, although less so for larger families.

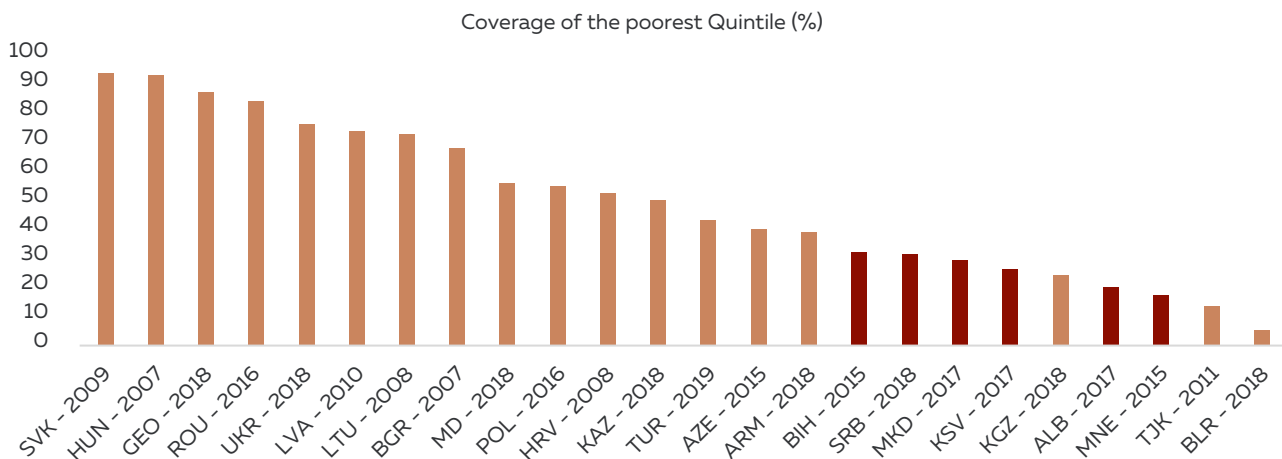
In the Western Balkans, people who receive last-resort income programs are not allowed to combine their cash benefits with income from formal employment or else they will lose their eligibility for the program. This means that even if they start earning a little money from formal employment, they lose the support they were receiving from the program. Overall, the combination of low coverage (not enough people receiving benefits), low benefit levels (the amount of support provided is not enough), and no income disregards (people cannot earn additional income without losing their benefits) leaves many vulnerable to risks and shocks such as unexpected expenses or job loss.

... as well as inflexible to protect those in need during crisis

Administrative problems impair the effectiveness and timeliness of assistance. None of the countries has an effective social registry or flexible on-demand programs, so that identifying the poor in a timely way is challenging. Social assistance administration tends to have a low level of digitization, with a heavy reliance on paper applications and in-person registration, despite reform efforts. In Albania, for example, the time required to determine eligibil-

¹¹ World Bank. 2020. North Macedonia Public Finance and Competitiveness Development Policy Loan Implementation Completion and Results Report. Simulations in the referenced report are carried out using SILC.

Figure 5: Coverage of the poorest with social assistance is low



Source: SPEED Database.

ity has fallen, but requirements of physical attendance at local offices to apply and then recertify every three months creates a burden on applicants and caseworkers. Monitoring and evaluation of programs remains inadequate in all countries, despite the increased availability of data. And coordination between employment offices and social assistance and services is limited, impeding the provision of assistance in finding a job to applicants for social assistance.

Restrictive criteria and inconsistency mar eligibility determinations in some countries. Eligibility for last-resort income support programs in Kosovo and Montenegro is based on income, assets, inability to work, and child care responsibilities. Such strict eligibility criteria mean that many poor households are not served, and provide incentives to work informally or obtain 'dependent' status to maintain eligibility. Some countries suffer from a lack of transparency or significant differences across regions in eligibility determinations. For example, in the Federation of Bosnia and Herzegovina, differing income eligibility criteria for child allowances contribute to wide disparities in coverage across cantons. And in Serbia, caseworkers' significant discretion in determining whether households' actual or potential income makes them eligible for benefits can result in arbitrary decisions.

A lack of flexibility impeded expansion of last resort income support programs to new clients during the COVID-19 pandemic. In some countries, a large share of assistance targeted at the poor was based on categorical eligibility criteria, such as child allowances and benefits provided the elderly poor. In Kosovo, for example, the presence of children, caregiving and dependency of family members, and

inability to work are eligibility criteria for the LRIS. Such programs could not assist individuals who lost income during the pandemic but did not fit the categorical criteria. Even where eligibility was based on income, strict and detailed eligibility criteria limited the ability of the main poverty-targeted program to expand rapidly during a crisis. In Montenegro and Republika Srpska in Bosnia and Herzegovina, for example, the setting of eligibility criteria in the legislation made it difficult to make revisions in response to the crisis. In contrast, the relevant legislation in the Federation of Bosnia and Herzegovina and in North Macedonia established triggers that allowed for changes in program eligibility in response to the crisis. Some countries implemented parallel programs to provide more general assistance, but these tended to be poorly targeted.¹² Countries with a more advanced management information system (MIS) could respond faster, at least in theory. For example, Montenegro's management information system enabled the government to identify eligible beneficiaries and process payments within three days. These beneficiaries, however, were already part of the country's social welfare information system (SWIS), and the strict targeting criteria did not allow for an expansion of the beneficiary base. Albania used the electronic submissions of applications to speed eligibility determinations but also provided a one-off payment to people whose data was in the MIS but were not eligible for support. Paper-based application processes, for example in Serbia, and a lack of outreach to potential new clients, for example in Bosnia and Herzegovina, also prevented the rapid expansion of caseloads.

The assessment of disability is outdated and create inequities in accessing needed cash benefits and services. Disability assessments are crucial to social

¹² World Bank. 2020. Western Balkans Regular Economic Report No.18, Fall 2020: An Uncertain Recovery.

assistance as inability to work features as an eligibility criterion to determine access to disability benefits, a main source of social assistance in some countries and many last-resort income support programs across the region. Most countries continue to use a purely medical assessment of disability. Reliance on a medical assessment means that persons with disabilities who do not fit into the medical categories used, often those with mental illnesses, may be ineligible for support. In addition, a purely medical assessment may not accurately evaluate the extent to which the disability impairs the ability to function within society. For example, the disability assessment system in Kosovo does not measure the ability to work or perform basic life tasks (e.g., cooking, cleaning, ability to move around). Three of the six countries are in the process of transitioning to a more comprehensive approach. For example, in 2015 Albania initiated a reform to introduce a bio-psycho-social assessment. So far, the methodology has been tested and rolled-out nationwide and a management information system developed to support these assessments. Further investments in continuous training, materials, complaint systems and other systems will be required in the reforming countries. And even in these countries, the additional cost of disability, to the disabled and their caregivers, is typically not assessed, leading to inadequate allowances. Outdated disability assessments not only create inequities but also limit a broader reform of disability assistance.

Social service reforms are in progress, but services remain underfunded and inequitable

The low level of funding and inadequate institutional frameworks for social services result both in lack of access to and low quality of care. Services for children and the elderly are scarce. Equity in access is an issue, oftentimes caused by outdated assessments of disability, as explained above. Plans for financing increases are underway in Albania, through the creation of a Social Fund to partially cover the costs of developing new social services, and in North Macedonia to increase financing and expand the menu of services that are offered through outsourced providers.

Social workers continue to face significant challenges in serving their clients. Social workers have substantial administrative responsibilities, reducing the amount of time devoted to counseling. In Serbia, for example, high caseloads for the Centers for Social Work (CSW), fragmented delivery sys-

tems, and lack of standardized referral procedures limit coordination and effective services provision. Across countries, there is a shortage of skilled staff and the provision of training is often limited. Most countries have begun the process of introducing case management, but progress is uneven. Case management is in place in some CSWs in Bosnia and Herzegovina, but it is not mandatory in FBiH. Reforms in Albania and North Macedonia introduced case management, although further investments in the systems (e.g., concerted attention to mentoring and coaching of CSW staff, along with increasing staff to reduce caseloads, in the latter) are necessary. Management information systems in Kosovo are not equipped for case management and there are no linkages across social services and cash benefits. In Montenegro, CSWs use disproportionately more resources on cash-benefit-related affairs than on case management. And in Serbia, case management approaches and referral procedures are not fully developed, in part because high caseloads and extensive reporting requirements created some resistance to the reform.

The region is making progress in deinstitutionalization. Most countries are continuing efforts to shift individuals needing care from institutions to foster care or community-based services. Progress is uneven, however. In Montenegro, no child under the age of 3 lived in an institution in 2019 and in North Macedonia all children under 18 that formerly were living in institutions are now placed in foster care or group homes (although progress in the deinstitutionalization of persons with disabilities has varied across regions and severity of the disability). The foster care system in Bosnia and Herzegovina has been significantly improved, although more progress is necessary in avoiding the unnecessary institutionalization of children. And the number of children in institutions in Serbia decreased by 43 percent between 2011 and 2020, while the number of children in foster families increased by 8 percent, although children with more difficult conditions remain at much higher risk of institutionalization for life, and the quality of foster care is still problematic.

Several countries are taking steps to shift responsibility for social services to local municipalities. In North Macedonia, the municipalities now take the lead in offering services in partnership with local service providers, while the Ministry of Labor and Social Policy (MLSP) sets standards and frameworks, monitors the provision of services and finances services. In Montenegro, responsibility lines for financing social services between central and local levels

are blurred, leading to inequities in the provision and quality of services. In Kosovo, responsibility for provision of social services was transferred to municipalities in theory, but in practice not all competencies within the legal framework for decentralization were transferred. In general, the decentralization of services to local levels will require the strengthening of both the municipalities' ability to manage services and the central government's ability to support local administrations in these efforts, with a view to ensuring equity in access to quality services.

Progress in establishing an appropriate framework for private sector service provision has been uneven. In Montenegro, vagueness in the bylaws concerning the target groups of certain social services has led to difficulties during the licensing of service providers, while the process of developing standards for private provision of services is often slow and insufficiently flexible. In Albania, the 2016 legal authorization for non-public providers to deliver social services has not been used due to a lack of guidelines and regulations, including on the pricing of social services. North Macedonia reformed the licensing of social service providers and is piloting the financing of services through grants through nongovernmental organizations, as discussed above. However, this will require complementary changes to strengthen the capacity of municipalities to manage service providers and that of the CSWs to monitor them. Finally, in Serbia, private providers face difficulties obtaining licenses due to lack of technical staff and unclear procurement procedures at the local level.

Navigating labor market challenges requires increased capacity, scale and innovation

Employment and labor market services¹³ in the Western Balkans are insufficient to tackle the present and future challenges posed by global mega trends such as technology, urbanization, migration, climate change, and globalization. The critical aspect to highlight regarding ALMPs is that their effectiveness is significantly hindered by the lack of robust connections to employers and their labor market requirements, encompassing data exchanges, financing tied to labor market outcomes, as well as program design. Public employment services across the Western Balkans suffer from high caseloads: the number of jobseekers per counselor ranges from 269 in Serbia to 1042 in Kosovo (in 2019, before jumping to 2184 during the pandemic), well above the ILO recommended caseload of 100.

While some countries are taking steps to authorize the provision of services by the private sector, outsourcing remains non-existent in some countries and ineffective in others. For example, in Serbia, the ability of private contractors to participate in training is limited due to the complex and costly accreditation procedures as well as lengthy, complex and repetitive procurement requirements (a new public procurement law is designed to address this). In Kosovo, training offered at vocational training centers is limited to basic levels, mostly provided by long-time civil servants and, hence, often do not meet the labor market demands for youths.¹⁴ In Montenegro, most programs are implemented through annual public tenders, preventing timely and on-demand provision of programs. In North Macedonia, service applications must be based on a public announcement, often issued at short notice, while training providers are required to submit a sizeable number of documents.

Monitoring and evaluation is extremely limited, and available evaluations are decidedly mixed. In Montenegro, a recent qualitative evaluation found the impact of the adult learning and training program to be limited.¹⁵ An independent evaluation found that only around half of Vocational Training Center graduates in Albania were employed the following year, although most participants were satisfied with the quality of the courses. In Kosovo, process evaluations conducted by donors indicate that vocational trainings do not match the labor market's demand for skills. An evaluation found North Macedonia's internship program and training demanded by employers to be effective, whereas the wage subsidy and the training for occupations in demand showed little positive effects on either employment or subjective outcomes.

The effectiveness of ALMPs can be hindered by a lack of adaptation to the unique needs of clients, which can vary significantly. For example, a program aimed at reskilling individuals who have been out of the labor force for an extended period may not be effective if it does not address the specific needs of this group. The program may need to provide additional support and resources such as childcare, transportation, or even literacy and numeracy training to address the unique barriers faced by these individuals. Without considering the cost-effectiveness of these additional resources, the program may not be sustainable or have the desired impact on labor market outcomes. Thus, understanding the unique needs of clients and cost-effectiveness of different programs is critical for designing effective ALMPs.

¹³ Employment and labor market services refer to the range of services and resources that are available to both employers and job seekers to facilitate the matching of workers to available jobs. Some examples of labor market services include job postings, recruitment services, career counseling, training programs, and unemployment insurance.

¹⁴ Paun Jarallah, A. and A. Rizvanolli. 2019. Capacity assessment of the Employment Agency, report drafted under the EU IPA 'Support to Ministry of Labour and Social Welfare for Efficient and Effective Implementation of Active Labour Market Measures' project, Prishtina, December 2019.

¹⁵ Bejaković, P. 2021. The Evaluation of Active Labour Market Policy in Montenegro.

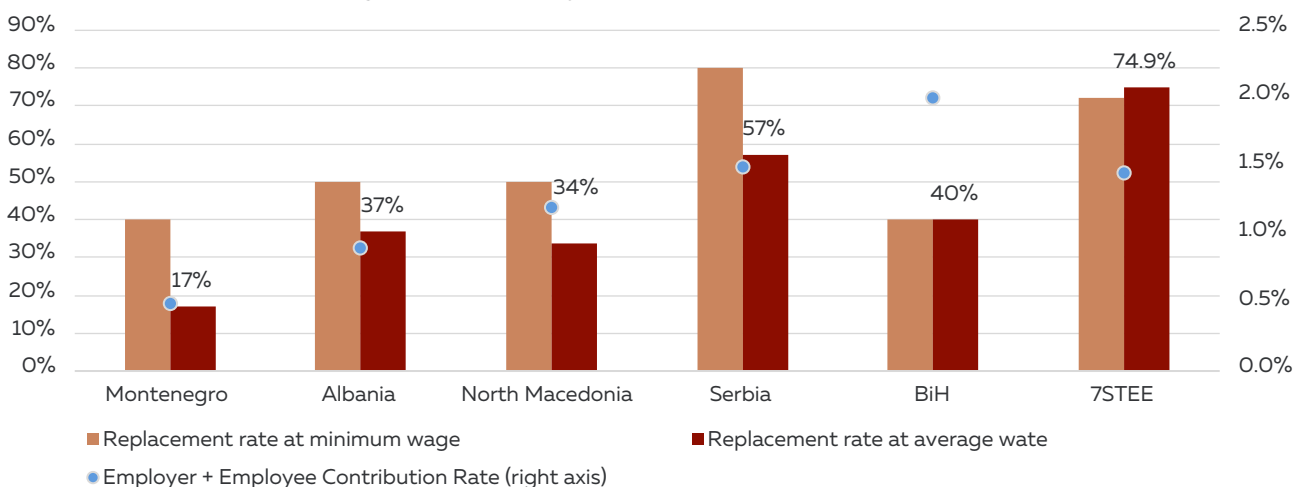
Although few ALMPs focus on serving the hardest-to-serve groups, such as women who have been out of the labor force for an extended period and youths, it is worth noting that these groups make up large segments of the working-age population with specific challenges. The mismatches between the skills workers possess and those required for good jobs are likely to increase, as technological advances are shifting employers' required skills, and educational systems are not producing adequately educated youths. Furthermore, finding quality jobs for seasonal and informal workers with low productivity jobs is particularly challenging and requires different approaches from traditional services. In Bosnia and Herzegovina, for example, ALMP menus have become better targeted towards hard-to-serve groups, including less skilled workers, women, self-employed individuals, and youths, while moving away from higher-skilled job seekers.

Recent trends in the reforms of last-resort income support schemes across Europe entail integrating activation policies and measures in program reforms. Activation is a combination of policy tools that support and incentivize job search and job finding among participants of last-resort income support programs with the aim of enhancing their productive participation in society, and becoming and remaining self-sufficient and less dependent on public support to meet their basic needs. Activation typically features financial or non-financial incentives to labor market reintegration combined with strict eligibility requirements for receiving the cash benefit and strict sanctions. Activation also features frequent and personalized interventions of public employment agencies during individual's unem-

ployment spell combined with behavioral requirements, such as active job search or participation in programs that strengthen employability, productivity, work and earning capacity.

In addition to inadequate ALMPs, unemployment benefit levels and coverage are low, leaving workers without support during job transitions. All countries with the exception of Kosovo have social insurance schemes with employer and employee contribution rates similar to that of the 7STEE countries (Montenegro's rate is considerably lower and Bosnia and Herzegovina's rate is higher than the average of the 7STEE countries). Only a small share of registered jobseekers receive unemployment benefits, however. This is partly due to the failure to meet eligibility requirements. For instance, benefits often have a limited duration, so individuals who experience long-term unemployment may lose their benefits. Additionally, the prevalence of informal employment can make it difficult for workers to meet eligibility criteria. It is important to note that these issues are complex and not easily remedied, and they ultimately impact the number of individuals who are able to access benefits. In North Macedonia, for example, only between 4 and 6 percent of all registered jobseekers receive the benefit per month, in part due to the failure to meet eligibility requirements. In Serbia, unemployment benefits are claimed by only 6 percent of the registered unemployed. The shares of the minimum and average wages covered by unemployment benefits in the Western Balkans (except Serbia for the minimum wage) are lower than in any of the 7STEE countries. In Montenegro, for example, the average benefit relative to the beneficiary's previous income is the

Figure 6: Unemployment benefits are inadequate



Sources: Montenegro: MONSTAT, Albania: INSTAT, Serbia: Statistical Office of the Republic of Serbia, BiH: Federal Bureau of Statistics Bosnia and Herzegovina, North Macedonia: MAKSTAT and OECD for the remaining countries

lowest among neighboring countries and comparable countries in the European Union. At the same time, the combined contribution rates of employers and employees, while demonstrating considerable cross-country differences, are not consistently lower (with the exception of Montenegro), and in some cases are higher, than in the 7STEE countries.

Reforming established pension systems is needed for pension sustainability and fiscal stability

Pension systems differ significantly across the Western Balkan countries, but all struggle to ensure financial sustainability while providing adequate benefits to a sufficient share of retirees. Different countries are in different positions in the tradeoffs across sustainability, adequacy and coverage. The 2015 pension reform in Albania improved fiscal sustainability, benefits and equity, but the support ratio (number of contributors per 100 beneficiaries) is now one of the lowest in Europe and will compromise the system's ability to pay relevant pensions in the long run. The Montenegro pension reform significantly improved the adequacy of pensions, at the cost of projected pension deficits for the foreseeable future. North Macedonia's 2018 pension reform slightly improved financial sustainability, but this was undermined by subsequent ad hoc indexation provisions that increased benefits. Low birth rates and high outmigration, combined with rising informal employment, threatens the sustainability of the Serbian pension system. While both pension systems in the Bosnia and Herzegovina entities had been estimated to remain fiscally sustainable over a period of 10 to 15 years, pandemic-related pension measures temporarily widened the pension deficits and shortened the expected sustainability period. In Kosovo, the fiscal cost of pensions equaled 5.7 percent of GDP in 2019, which is currently almost fully government funded, given the recent establishment of the contributory-based system. The number of active contributors for each retiree is projected to fall from 7.8 at the end of 2018 to three by 2047, which will require adjustments in contribution rates or retirement age to maintain sustainability over time.

The adequacy of pension benefits is low and declining, while the pension contribution rate is substantial in most countries. When measured as the ratio between average pensions and average gross wages, benefit adequacy is close to 40 percent in five of the six Western Balkan countries (and around 30 percent in the two entities of Bosnia and Herzegovina), or somewhat below the average for the EU.

In some countries, for example Kosovo, cost of living adjustments are made on an ad hoc basis, introducing some uncertainty about the purchasing power of benefit amounts. The pension contribution rate, however, is at or beyond 20 percent in all countries but Kosovo (where it is only 10 percent), which is higher than the OECD average of around 18 percent for the average earner.

The high spending on pensions in the Western Balkans fails to reach women, however, due to their low economic participation and resulting short work histories. Given the low labor force participation rates of women in the six Western Balkan countries and the rules requiring a minimum 15 years of contributions, on average, to claim a pension, pension benefits do not reach men and women equally. In addition to low labor force participation, many women work in the informal sector, which makes it difficult for them to access social security benefits, such as pensions, health care, and unemployment insurance. In Kosovo, while pensions are universal as a result of the universal basic pension (discussed in the sections above), a gender gap still results from wide and more generous special pension arrangements for occupations with dominant male participation (veterans, military, police).

Voluntary pension savings schemes are limited in the region. Kosovo and North Macedonia are the only two Western Balkan countries that currently have a multi-pillar pension system, with North Macedonia's more fully developed (including a solidarity pay-as-you-go pillar, a second fully funded mandatory pillar based on individual accounts and voluntary private open and occupational pension funds). In Serbia, the coverage of voluntary pension plans has stagnated around 10 percent of total employment and with assets equal to 0.85 percent of GDP. Both BiH entities have been working on a legal framework for voluntary pension savings, but its development has been slow and subject to legal and political obstacles. Despite that fact that access to social security benefits is limited, in some cases, by informal work arrangements and low labor force participation, there are few examples of innovations to expand coverage by addressing these constraints, such as the introduction of individual savings accounts which are being used globally in some countries. This is being done, for example, through the establishment of dedicated financial products accompanied, at times, by matching grants from the government and behavioral nudges, such as through automatic reminders.¹⁶

¹⁶ See, for example, Bosh M., et al., 2019. How to promote retirement savings for low-income and independent workers: the cases of Chile, Colombia, Mexico and Peru. IDB Technical Note, 1777. Inter-American Development Bank.

Advancing social protection systems

The social protection systems in the Western Balkans are comprehensive and multifaceted. To reduce poverty and vulnerability, it is crucial to implement reforms, and governments should concentrate on four primary areas: (i) building a strong foundation for social protection systems and enhancing their ability to cope with crises, thereby increasing their resilience; (ii) expanding the coverage and effectiveness of poverty-targeted programs and promoting greater inclusion; (iii) making it easier for people to access better jobs; and (iv) ensuring that social protection systems remain financially sustainable.

Establishing strong foundations for social protection systems to better respond to crises

An analysis of social protection delivery systems in the Western Balkans could identify gaps in outreach, intake, enrollment, and payments that could improve efficiency and facilitate access for the poor and vulnerable. By examining the system from the perspective of potential and actual beneficiaries, foundational reforms could be informed, and resilience strengthened. This would lead to a more effective social protection system and ensure that vulnerable populations are not left behind. For example, an analysis could reveal that many potential beneficiaries are not aware of the benefits they are entitled to, which could be addressed through targeted outreach campaigns. It could uncover inefficiencies in the enrollment and payment processes that could be streamlined to improve efficiency and ensure timely payments. It could also identify enrollment gaps for vulnerable groups or certain regions that could lead to the development of targeted programs to increase access, thereby promoting equity within the system.

Developing a social registry is essential for these countries to improve their social protection systems and respond to crises effectively. A social registry could help identify beneficiaries quickly during crises and expand the coverage of social assistance support to additional poor households. It could also improve targeting accuracy and expand social assistance in times of need. For many years now, Montenegro had the most developed MIS, the so-called SWIS. The SWIS could be expanded into a full social registry, including potential beneficiaries. Importantly, the targeting method should be reassessed to allow for the expansion of the program in times

of need. Similarly, the Cash Benefit Management Information System (CBMIS) in North Macedonia could be expanded into a full social registry by including potential beneficiaries. In Albania, Bosnia and Herzegovina, Kosovo the respective program MIS can serve as an entry point to develop a social registry, and all countries are working towards this goal. Finally, Serbia is in the process of developing a so-called Social Card Registry (SCR), which will enable determination of the socio-economic status of applicants and their rights to benefits.

Central to reform must be the ability (and the willingness) to identify poor and vulnerable households beyond strict categorical criteria. All countries already have, to varying degrees, the ability to identify poor households. North Macedonia consolidated its social assistance programs and adopted a common poverty-based targeting criterion in 2019, which allowed an expansion of the guaranteed minimum income program during the pandemic. Albania also uses a poverty-based targeting criterion for its last-resort social assistance program (Ndihma Ekonomike), but the scoring formula is based on old data and coverage is low, given that it is the only poverty-targeted program. Montenegro was long at the forefront of implementing a poverty-targeting system in the Western Balkans, but recent policy changes reduced spending on the poverty-targeted material support in favor of categorical benefits. A planned reform of the targeting formula in Kosovo, which disqualifies families from social assistance once the youngest child turns five years old, was for a long time stalled in Parliament. Bosnia and Herzegovina spends the least amount of all six Western Balkan countries on poverty-targeted social assistance, and Serbia actually reversed spending on poverty-targeted programs during the pandemic, introducing untargeted transfers to all adults and pensioners.

In conclusion, the need for social protection reform that effectively targets and supports the most vulnerable and poorest families cannot be overstated. While some progress has been made in the Western Balkans towards implementing poverty-based targeting criteria, there is still much work to be done to ensure that eligibility is not limited by strict categorical criteria and that digital systems are in place to identify potential beneficiaries quickly. It is essential for governments to shift their mindset towards identifying households in need, rather than relying on mostly static demographic characteristics, that are oftentimes unrelated to poverty (e.g., war veterans and their families). This shift will also allow for

the coverage of poverty-targeted programs to be expanded (see below). By prioritizing social protection reform that is responsive to the unique needs of their citizens, countries in the region can make great strides towards reducing poverty and promoting inclusive economic growth.

Expanding coverage and effectiveness of poverty-targeted programs to improve inclusion and support for vulnerable populations

A serious commitment to poverty-targeting should be accompanied with a rebalancing of spending in order to increase coverage and offer integrated support for poor and vulnerable households. While overall spending on social protection across the six Western Balkan countries is above the average for the emerging market and developing economies in Europe and Central Asia, spending on last-resort income support across the Western Balkans is dismal. This low spending is both a function of policy priorities as well as an inherent limitation of the strong categorical targeting. Therefore, re-evaluating the importance of poverty-targeted social assistance through a rebalancing of budgets from untargeted to poverty-targeted programs would not only improve the coverage of the poor by cash transfers, but also improve the effectiveness of the social protection system in reducing poverty, which, if well-designed, can also promote productivity and employment. Ideally, such a reform would be accompanied with integrated case management for social assistance and social services, with strong linkages to employment services.

Reforms to disability programs and social services are a high priority to achieve greater inclusion. In particular, further progress is necessary to shift from a purely medical examination to determine disability to an evaluation of the interaction of functional impairments caused by a disease with the environment in which the person lives. Such a reform would not only impact provision of social services, but requires a comprehensive review of the way disability is assessed and supported throughout the entire social protection system (including pensions and employment support for persons with disability) to provide equitable and tailored support.

In order to achieve a more effective and efficient social service delivery system, ongoing reform efforts should be focused on multiple fronts. While priority reforms are country-specific, there is a general need for reviewing and building case manage-

ment systems for integrated needs assessment and for supporting referrals between services and between services and cash programs. Additionally, it is important to promote capacity development at the local level to ensure that decentralization of social services can be completed effectively. Evaluating the reform of social services will help to identify second-order reform priorities. Finally, it is necessary to further expand the provision of long-term care for the elderly and explore options for private provision through a combination of public and private financing. Through these efforts, a more integrated and efficient social service delivery system can be created to better serve the needs of vulnerable populations, offering the opportunity, in some cases, to reduce the care burden on families, particularly women.

Facilitating access to better employment opportunities and promoting labor market inclusion

Employment services in the Western Balkans are not equipped to support Western Balkan workers through the challenges ahead. The pandemic's impact on labor markets, and in particular the acceleration of technological adoption and the resulting change in tasks, jobs and skill requirements, is expected to exacerbate already existing skill gaps. Post-pandemic, estimates suggest that most growth in labor demand will happen in high-wage jobs, whereas many low-wage jobs may be at risk of disappearing due to automation, and a large share of workers will require reskilling to maintain employment. While demands on employment services are large, low funding and limited capacity constrain the reach and effectiveness of both active and passive employment services and programs. The ability of these services to evolve in response to changing demand for skills is also undermined but a lack of monitoring and engagement with the private sector.

Despite considerable support from the international community, the list of outstanding reforms to strengthen employment services is long. Given the importance of facilitating access to good jobs, all employment services in the region benefit from international technical assistance and financial support for reform. Yet, the list of reforms remains long, spanning from better tailoring services to the needs of both employers and jobseekers, including proactive case management and statistical profiling, increasing the capacity of employment counsellors for employer outreach, specialized support for vulnerable groups, involvement of the private sector in

course development and delivery and outsourcing of services, transparent monitoring and evaluation systems, reliance on data to inform program design, increased and predictable funding for services and programs, and expanding the client base to include life-long learning offers for workers (especially those at risk of redundancy or off-season workers). While these reforms can improve the supply of labor and intermediation, they cannot, alone, address a lack of employment opportunities and jobs in the region.

Relatively high social security contributions combined with low replacement rate and low coverage of unemployment benefits illustrate the disconnect between financing and service provision. In Bosnia and Herzegovina, for example, the average pension benefit ratio is among the lowest in the region and Europe, while the pension contribution rate is above the rate in many other countries. In general, the contribution rates for unemployment insurance are not particularly high across the Western Balkans, but only a small share of the unemployed are covered by unemployment benefits, and benefits are much lower than in comparable EU countries. A thorough review of the unemployment benefit system, including application process, duration and period of contributions, and contribution rates, is warranted across all countries. Overall, despite the significant amount of money being paid into the social security system, the benefits provided are not sufficient for those who are entitled, and many who need them are not able to access them, given these benefits are, by design, limited to those in formal employment.

Ensuring the financial sustainability of social protection programs for long-term effectiveness

Social protection systems are trapped in a low-equilibrium; on one hand, spending on pension is high, with future financial sustainability in danger; on the other hand, social protection is not effectively reaching the poor and vulnerable, or those in need of support to access jobs. Old-age pensions play an important role in the Western Balkans, particularly in providing a safety net for the elderly population who may be vulnerable to poverty and social exclusion. Pensions already make up the bulk of social protection spending in the Western Balkans, but low productivity and employment together with population aging and emigration endanger the financial sustainability of these systems. On the other hand, spending on poverty-reducing social assistance, social services and employment support is dismal,

and as a consequence, poor families struggle to break the cycle of intergenerational poverty and remain dependent on government welfare.

Putting pensions on a sustainable footing requires a comprehensive review of social protection objectives and policies. Reforming pensions in isolation of other social protection policies will not lead to satisfactory outcomes, given the competing demands on limited government funding and gap in coverage across social protection systems in each country. The social protection systems across the Western Balkans are largely influenced by vocal interest-groups, such as war-veterans and pensioners, crowding out government spending for programs that are effective in reducing poverty and/or promoting access to jobs. Putting Western Balkan social protection systems on a sustainable path requires adjusting pension parameters to improve financial viability and adequacy, means-testing social pensions, considering voluntary saving plans, including innovative options for extending coverage to informal workers, policies on active aging, and above all, focusing on increasing the contribution-base through effective employment policies, coupled with broadbased efforts to promote productivity and employment.

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