



A Western Balkans
Regional Initiative
The Future of
the Welfare State

Position Paper

The Welfare State in Western Balkan Countries

CHALLENGES AND OPTIONS

Gordana Matković

The Welfare State in Western Balkan Countries

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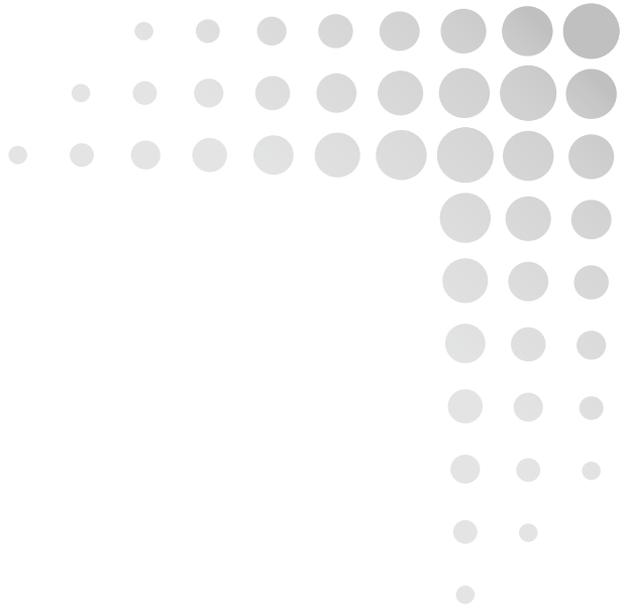
Position Paper

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Gordana Matković

September 2017



Foreword

Social cohesion in the Western Balkan economies is under constant risk. A weak social welfare state and the persistent and challenging economic situation create an unstable environment that could compromise and jeopardise the sustainable development of the Western Balkan societies. There is a need to initiate a broad-based, evidence-informed debate and a dialogue on the future of the welfare state.

A group of Western Balkan think-tank organisations and researchers working on the welfare state issues¹ have initiated development of a Regional platform that would raise the understanding among the research, civil society and policymakers' communities in the Western Balkans on the key issues of social policy and the welfare state.

The idea is to engage the foremost researchers, political, business and other leaders of society to shape a regional social welfare state agenda, thus contributing to improving the social dimension of the European Integration in the Western Balkans. One of the key outputs and tools of influence is initiating and holding of an annual event to discuss the Future of the Welfare State in the Western Balkans (informally named the *Social Davos* of the Western Balkans). The initiative intends to create added value through influencing existing processes which promote a sustainable reform agenda in the Western Balkan (such as economic governance and Economic Reform Programme, EU negotiation process, Employment and Social Reform Programmes, etc.).

These efforts are in line with the [EU Enlargement Strategy 2013-2014](#) in which the European Commission points out that "more needs to be done to address the difficult socio-economic situation", while the EU Enlargement Strategy 2015 assesses that "all Western Balkan countries face major structural economic and social challenges, with high unemployment rates and low levels of revenues". In addition, the [European Parliament resolution](#) states that strengthening economic governance without its social dimension is not sustainable, as recent developments in the EU show.

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Foreword

Position Paper **THE WELFARE STATE IN WESTERN BALKAN COUNTRIES** CHALLENGES AND OPTIONS

As a move forward, the *Position Paper on the Future of the Welfare State in the Western Balkans* has been prepared. The *Position Paper* provides an overview against the key welfare state indicators and reviews challenges that the social welfare state faces globally. Specifically, the *Position Paper* focuses on the challenges which are additionally linked to Western Balkans economies and also defines some of the key strategies and options in dealing with these challenges, that need to be tackled, discussed and agreed. The *Position Paper* informs further steps regarding the organization of the future conference and will also serve as a material for advocacy and partnership creation within this initiative.

This study relates to the [European Parliament](#) terminology of the Western Balkans, which comprise of Croatia (EU Member State since 2013), Montenegro, Serbia, Former Yugoslav Republic of Macedonia (hereinafter: Macedonia), Albania, Bosnia and Herzegovina and Kosovo*.

The initial development of this Regional Initiative has been supported by the [PERFORM – Performing and Responsive Social Sciences](#), a project of the Swiss Agency for Development and Cooperation (SDC), implemented by Helvetas Swiss Intercooperation and University of Fribourg, in close cooperation with [the Centre for Social Policy](#). The views expressed in this Study do not necessarily represent the opinions of the SDC or the Perform Project. The conclusions, recommendations and any remaining errors are the author's.

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* Ovaj naziv je bez prejudiciranja statusa i u skladu je sa Rezolucijom Saveta bezbednosti Ujedinjenih nacija 1244 i mišljenjem Međunarodnog suda pravde o deklaraciji o nezavisnosti Kosova.

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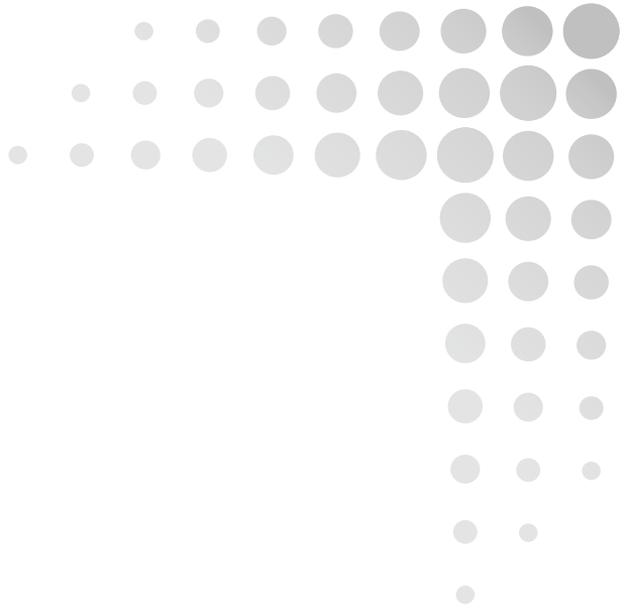
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List of Acronyms

AL – Albania

BA – Bosnia & Herzegovina

ERP – Economic Reform Programme

ESSPROS – European System of Social Protection Statistics

EU – European Union

GDP – Gross Domestic Product

ILO – International Labour Organisation

IMF – *International Monetary Fund*

HR – Croatia

LSMS – Living Standards Measurement Survey

MICS – Multiple Indicator Cluster Survey

ME – Montenegro

MK – Macedonia

NATO – North Atlantic Treaty Organization

OECD – Organisation for Economic Co-operation and Development

PISA – Programme for International Student Assessment

PPS – *Purchasing Power Standard*

RS – *Republic of Serbia*

SILC – Survey of Income and Living Conditions

TFR – Total Fertility Rate

UN – United Nations

UNFPA – United Nation population Fund

UNICEF – *United Nations Children's Fund*

XK* – Kosovo*



Introduction

An important role of the modern state is to participate in providing social protection to its citizens. State activities in the social sector – in the area of cash benefits, health care, education, housing and care services – are most commonly encompassed by the term "welfare state" (Bar, 2013, p. 10).

Although, according to textbook definitions, securing some basic modicum of welfare was long considered the central feature of the welfare state (Esping-Andersen, 1990, p. 19), such definition of this notion may be misleading. In certain segments, such as the provision of education, health care and income in old age through public pension insurance, there are few examples of developed countries where the focus of the welfare state can be denoted by qualifiers such as "minimum" and "basic".

The objectives of the welfare state encompassing both efficiency and equity are multiple, including poverty reduction, inequality reduction, consumption smoothing, and protection against risks such as unemployment, disability and sickness (Briggs, 1961, p. 226), (Bar, 2013). The activities of the welfare state are geared not only towards the poor and vulnerable groups, but also, to a significant extent, towards the entire population. Specific goals and target groups are attributed lower or higher importance in the overall design of different welfare states (Esping-Andersen, 1990).

In pursuit of the abovementioned goals, most modern nations provide social assistance and social housing to the poor, pensions, universal child allowances, "free-of-charge"² education and health care; deliver active labour market policies; provide unemployment benefits, disability benefits, sick pay, maternity pay; and provide or fund different social care services for the incapacitated elderly, children without parental care and persons with disabilities. In addition to funding social benefits and often also providing public services, the state has an important role in the sphere of regulation (passing laws, licensing service providers, oversight and monitoring). The boundaries of the welfare state are not clear-cut; thus, according to some researchers, its activities include policies that affect earnings capacity, the minimum wage and the structure of the labour market (Esping-Andersen & Myles, 2011). Thus defined, activities of the welfare state also encompass policies that determine wages and employment as a source of individual welfare.

² Free at the point of entry

Introduction

Such broad efforts result in a high proportion of public expenditures on social protection³ and education, amounting to, on average, over one third of the GDP in European Union countries⁴. Moreover, some authors define the welfare state in terms of the level of expenditures on the social sector. Thus, according to Therborn, welfare states are those states where more than half of all government expenditures are devoted to this purpose (Gough, 2008, p. 40), while Lindert (2016, p. 4), albeit without an attempt at generalisation, defines them as those states in which expenditures on social transfers (i.e. not including expenditures on education) exceed 20% of the GDP.

Research questions, as well as ideological and ethical dilemmas linked with the welfare state are many.

Among the key dilemmas is the question whether and what portion of education, protection and security should be provided via state and social institutions. This is *par excellence* an ideological question, related to the general convictions about the overly or insufficiently strong involvement of the state (libertarians vs. democratic socialists, for instance). To the extent that theories of market failures in the social sector are accepted⁵, this dilemma at least partly becomes a technical issue, and its overall resolution hinges on the ideological discourse and the pertinent goals defined by a society, including in the sphere of equity (Stiglitz, 2013), (Bar, 2013).

In their constitutions, many European countries identify themselves as social states either expressly (Germany, France, Spain, Slovenia, Croatia), or implicitly, by describing in detail the state's responsibilities in the social sector in the context of social rights

3 Unless explicitly stated otherwise, throughout the text the term "social protection" is used in a broad sense as protection against the risks and needs associated with: unemployment, parental responsibilities, sickness and healthcare, invalidity, loss of a spouse or parent, old age, housing, and social exclusion. This definition is in line with the ESSPROS methodology.

4 In 2013, the expenditures on social protection in the EU (28) stood at 28.9% of the GDP (Eurostat database, Tables *Social Protection Expenditure: main results*), and those on education – at 5.3% (Eurostat database, Tables *Total public expenditure on education by education level and programme orientation – as % of GDP*).

5 Market failures such as imperfect competition, external effects, public goods, asymmetric information (the phenomenon of moral hazard and negative selection) and imperfect information, provide arguments in favour of different forms of state intervention in the social sector.

(e.g. Sweden⁶). Thus, by their supreme legal instruments, these states have chosen to give the welfare state or the social state⁷ the pivotal role in their social order.

Certainly, another crucial question is whether the welfare state decelerates economic development. Although, as yet, there has been no conclusive or indisputable empirical evidence confirming negative economic consequences of state intervention in the social sphere (Lindert, 2016, p. 5) (Garfinkel & Smeeding, 2010), efforts to present the welfare state and social policy as a productive factor with a positive impact on economic growth and development have been noticeable, especially since the adoption of the Lisbon Strategy⁸. The social investment paradigm, which highlights specific investments in the social sector as productive, has been formulated and promoted in the same vein. Social investments are considered to be investments in sectors such as education and health care, as well as training, rehabilitation, childcare and employment service programmes. These are the interventions that constitute investments in human capital and promote employment, active and preventive policies⁹. According to some authors, attaching increasing importance to social investment marks a distinct third phase in welfare state development (after the universal and neo-liberal phases)¹⁰ (Hemerijck, 2012).

An issue of particular importance in this context is the future of the welfare state. The first oil crisis of 1973 marked the end of the golden age of the welfare state¹¹ and the beginning of a several-decades-long debate about its crisis, continuing until today. "Academics wrote books in which 'crisis' and 'welfare', the 'end of welfare states' or 'what comes after the welfare state' or 'the race to the bottom' came in varied combinations" (Glennerster, 2007, p. 2).

6 Article 2 of the Constitution of Sweden provides that public institutions are required to secure the right to health, employment, housing and education, and to promote social care and social security. (Chapter 1, Article 2) <http://www.parliament.am/library/sahmanadrutyunner/Sweden.pdf>

7 These two terms will be considered synonymous in the text below. Some authors make a substantive distinction between the welfare state, the social state and the social service state (Briggs, 1961, p. 10), while different terms are also partly attributed to historical reasons and different language traditions (e.g. English *Welfare state* and German *Sozialstaat*).

8 Agenda for social policy (2000-2005) https://www.ucc.ie/archive/hdsp/Social_Policy_Agenda_com379_en.pdf; <http://ec.europa.eu/social/main.jsp?catId=1044&langId=en&newsId=1807&moreDocuments=yes&tableName=news>

9 <http://ec.europa.eu/social/main.jsp?catId=1044&langId=en>

10 According to Hemerijck, the first phase is a phase of universal social entitlements, inspired by Keynesian economics and Beveridge's social insurance, while the second one is a neo-liberal era of deregulation, privatisation and cuts in budget expenditures on the welfare state.

11 The period between 1950 and 1973 is also considered the golden age of economic growth.

Introduction

The collapse and fall of the welfare state have not happened (Castles, 2004) (Glennerster, 2007) (Bar, 2013). Changes are, however, happening almost continuously, and entail:

- Active, rather than passive social policy – active social policy should facilitate overcoming the problem of moral hazard¹² and, instead of passive financing of cash benefits, requires beneficiary activation, but also includemaking work pay policies¹³, (measures include training and retraining, work experience programmes, welfare to work programmes, subsidized employment, etc.);
- Introducing market mechanisms and competition in the service provision sphere – the state withdraws from service provision while retaining the funding role, either by awarding vouchers or by subcontracting private service providers;
- Reducing public funding for the social sector–encouraging private pension insurance and supplementary health insurance, shifting a higher portion of the costs to clients (raising co-payment levels in health and social care, capping the amounts covered by public insurance), shifting part of the costs to private–sector employers (sick pay, childcare etc.), funding higher education from private sources etc.;
- Raising efficiency by cost containing and reducing expenditures within the public systems–shifting the focus from universal to means-tested benefits; changes in the public pension system (raising the required years of service and retirement age, equalising the retirement requirements for men and women, tightening the eligibility requirements for disability and accelerated benefits, changes in pension indexation), changes in public health and education funding models aimed at increasing efficiency (capitation, diagnosis-related groups);
- Raising efficiency through enhancing service quality (e.g. changes in education contents and curricula, providing continued education to professionals, improving minimum standards, formulating different protocols on cross–sectoral cooperation, etc.).

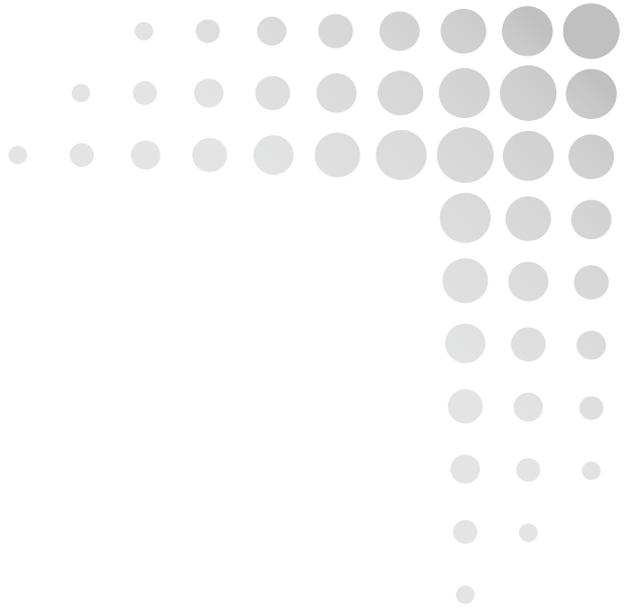
The ongoing reforms implemented in the social sector are viewed by some researchers as evidence of resilience (Castles, 2004) (Glennerster, 2007) (Morel, Palier, & Palme, 2012), while others argue that the welfare state has, in fact, changed fundamentally

12 In the case of social assistance, the moral hazard is that applicants and their families will rely on social assistance rather than seeking to improve their position (OECD, 1998, p.78)

13 "Policies to make work pay operate either through the supply side (by raising disposable income of workers with low earnings in absolute terms and/or relative to benefit income) or the demand side (by reducing non-wage employers' cost of employing low-wage labour)" (Group of Experts on Making Work Pay, 2003, p.8)

and transformed into the enabling state (Gilbert, 2002) (Gilbert & Terell, 2010) or the workfare state (Jessop, 1993) (Jessop, 1999).

The public finance challenges and pressures that imposed reforms in the past are largely relevant to the future of the welfare state as well. As the key ones, literature cites globalisation, integration processes, demographic changes, and in particular population ageing, rising consumer expectations, changes in family structure and labour market changes (Castles, 2004) (Glennerster, 2007) (Gilbert & Terell, 2010) (Bar, 2013). Notable new challenges include inequality, especially global inequality among individuals and migration, including refugees (Milanović, 2012) (Hemerijck, 2012a) (Glennerster, 2007)



Challenges

If safeguarding the minimum, basic standard is adopted as the central feature of the welfare state, it is almost impossible to assess whether Western Balkan countries nowadays have a welfare state at all, or whether they are attempting to build or reform it, or whether they had and lost it in an attempt at reform. From the aspect of the discussion of options and strategies below, it is more important (and straightforward) to define specific challenges relevant to the state activities in the social sector in this region.

Most challenges identified in more developed countries are also present in Western Balkan countries, mainly in an even more acute form as a result of funding shortage, prevalent social problems, weak capacities and overall inefficiency of the government and public sector. Reforms are hampered and challenges exacerbated also as a result of all-pervasive clientelism, heritage of Bismarck's "socialist" welfare state and restrictive public finance policies, especially during and in the immediate aftermath of the global financial crisis.

1. Development level inadequate for a comprehensive welfare state?

By European standards, Western Balkan countries' development level is low. In 2014, the per capita GDP expressed in purchasing power standards¹⁴ ranged between 7,800 in Albania and Bosnia and Herzegovina, and 10,600 in Montenegro. Only Croatia, with a significantly higher per capita GDP, exceeding 16,000 PPS, was out of this range.

Relative to the EU (28) average, the per capita GDP ratio ranges between 28 and 37 in most of the countries. Slightly higher values are recorded by Montenegro (42) and the highest-developed country in the region – Croatia (59), the only one whose per capita GDP exceeds half of the EU (28) average.

In the context of such low GDP levels, an extremely adverse circumstance is that some Western Balkan countries – Montenegro, Serbia, Croatia and Albania – are also faced

¹⁴ The purchasing power standard (PPS) is an artificial (common) currency unit. Theoretically, one PPS can buy the same amount of goods and services in each country. [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Purchasing_power_standard_\(PPS\)](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Purchasing_power_standard_(PPS))

Challenges

with high budget deficit levels (above the levels set by the Maastricht criteria) and high indebtedness (public debt-to-GDP ratio exceeding 60%)¹⁵. In 2015, a markedly low debt ratio was recorded only in Kosovo (12.9% of the GDP), partly due to very limited access to international financial markets.

Table 1: Per capita GDP in Western Balkan Countries, 2014

| Country | AL | BA | HR | XK* | ME | MK | RS |
|--------------------------------|-------|-------|--------|--------------------|--------|--------|-------|
| Indicator | | | | | | | |
| Per capita GDP (€) | 3,440 | 3641 | 10,200 | 2,935 ¹ | 5,436 | 4,127 | 4,635 |
| Per capita GDP, PPS | 7,800 | 7,800 | 16,100 | - | 10,600 | 10,000 | 9,500 |
| Per capita GDP, PPS (EU = 100) | 30 | 28 | 59 | - | 42 | 36 | 37 |

Source: Eurostat database, Croatia –Tables Main GDP aggregates per capita, other countries –Tables Candidate countries and potential candidates: GDP and main aggregates; per capita GDP in PPS (EU 28 = 100) – TableGDP per capita in PPS

Note: ¹ 2013

In global terms, according to the World Bank methodology, Western Balkan countries are upper-middle-income countries, with the exception of Croatia (high income) and Kosovo (lower middle income)¹⁶.

2. The demographic situation is unfavourable and generates long-term pressure on social expenditures

The demographic situation is unfavourable in most Western Balkan countries. The adverse demographic features primarily include:

¹⁵ Eurostat tables *Candidate countries and potential candidates: Government statistics and Government deficit/surplus, debt and associated data*, except for government deficit in Montenegro (Centralna banka Crne Gore, 2016)

¹⁶ <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>

- Low total fertility rates, especially in Serbia and Croatia (1.46 and 1.4), at a sub-replacement level. It is only in Kosovo that the total fertility rate exceeds this level (2.2).
- Negative natural growth in Serbia, Croatia, and Bosnia and Herzegovina; in the first two of these countries, it has persisted for over two and a half decades. In Albania and Kosovo, albeit high, natural growth has contributed to population growth to a lesser extent than migration.

Negative or zero migration rate in all countries, especially Albania and Kosovo. According to Eurostat data for three years (2012 – 2014), nearly 50 thousand people emigrated from Croatia, 74 thousand from Kosovo, and as many as 150 thousand from Albania¹⁷. In the past two decades, 4.9 million people, i.e. almost 25% of the population, have left the region (excluding Croatia) (Svetska banka, 2015, p. 21).

As a result of one or both of natural growth and migration, the population of the Western Balkans is shrinking and ageing. In recent years, low positive population growth rates have been recorded only by Montenegro and Macedonia.

Population ageing is particularly pronounced in Serbia and Croatia, where the share of the population aged over 65 exceeds 18.5% and is close to the EU (28) average. The decisive influence on population ageing is commonly exerted by low fertility and increasing life expectancy, but in some Western Balkan countries, emigration flows have a significant impact as well. Thus, in European terms, the highest increase in median age in the past ten years was recorded in Albania¹⁸. The Kosovo population is still young, with children under 15 accounting for over 28% of the population and a very low share of the elderly (only 6.8%).

¹⁷ Eurostat database, for Croatia: *Tables Emigration by age and sex*, for Kosovo and Albania: *Tables Candidate countries and potential candidates: population – demography*

¹⁸ http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing

Challenges

Table 2. Selected demographic features, Western Balkans, 2015

| Country \ Indicator | AL | BA | HR | XK* | ME | MK | RS |
|-----------------------------------|-----------|-------------------|-----------|------------------|---------|-----------|-----------|
| Estimated population size | 2,892,302 | 3,819,486 | 4,225,316 | 1,772,107 | 622,099 | 2,069,172 | 7,114,393 |
| Natural growth rate (‰) | 3.7 | -1.5 ¹ | -4.0 | 12.4 | 1.7 | 1.3 | -5.4 |
| Net migration plus adjustment (‰) | -5.9 | 0.0 ¹ | -4.3 | -31.1 | -1.5 | -0.2 | 0.0 |
| Total fertility rate | 1.67 | 1.24 | 1.40 | 2.2 ¹ | 1.74 | 1.50 | 1.46 |
| Share of the elderly (65+) (%) | 12.4 | 15.8 ¹ | 18.8 | 6.8 ¹ | 13.7 | 12.7 | 18.5 |

Source: Population size – Eurostat database, Tables *Candidate countries and potential candidates: population – demography*, Croatia *Population on 1 January by age and sex*; Natural growth rate and migration rate – Eurostat database, *Population change*; TFR – Eurostat, Table *Total fertility rate Fertility indicators*, Kosovo – Tables *Candidate countries and potential candidates: population – demography*, B&H – (Agencija za statistiku Bosne i Hercegovine, 2016); Share of the elderly – Eurostat database, Tables *Population: Structure indicators*, except for B&H and Kosovo – Tables *Candidate countries and potential candidates: population – demography*

Note: ¹ 2014

Demographic challenges translate into welfare state challenges via multiple channels.

Firstly, population ageing, especially in view of the growing share of the oldest-old (80+), puts high pressure on the pension system and health care and increases the needs for long-term care. Population ageing, hence, has the highest impact precisely on those segments of the welfare state which are the most costly and prevail in the social sector expenditures. On the other hand, demographic processes lead to labour force decline and increase in the old age dependency ratio, which not only affects the economic performance of a society, but also reduces the potential for social security funding, which is heavily reliant on labour taxation. In the longer term, labour force ageing, as part of the phenomenon of population ageing as well as of the efforts to address its consequences, requires higher allocations for retraining and further training,

and possibly also for unemployment and disability benefits, owing to prolonged labour market participation of the elderly.

Secondly, owing to low total fertility rates, the Western Balkans are joining the ranks of those regions that cannot rely on migration or increasing the economic activity rate to overcome the issue of rising social public expenditures due to ageing, even in the future (Castles, 2003, p. 210). Furthermore, low fertility rates prompt efforts to formulate and implement population policy measures, which can "snatch" a substantial proportion of the social sector's budget, with uncertain outcomes and possibly negative impact on other important goals, such as education and early childhood development or raising women's economic activity¹⁹. This primarily concerns measures such as awarding high monthly benefits during extended periods of time to women for the birth of the third child (Macedonia and Montenegro). On the other hand, such low fertility rates might spur the design of a comprehensive family support policy, in the way that the development of the welfare state in Sweden in the pre-Second World War period was inspired by the population issue (Morel, Palier, & Palme, 2012, p. 3). The problem of low reproduction rate and population ageing is also stressed by Lord Beveridge in his report that provided inspiration for the creation of the welfare state in the United Kingdom. In the context of the post-war demographic situation, he emphasised that it is imperative to give priority in social expenditure to the care of childhood and to the safeguarding of maternity (Beveridge, 1942, p. 8).

Negative migration balance and emigration contribute to population ageing, given the selective nature of migration and the fact that emigrants are predominantly young and of working age. Emigration thus heightens the impact of population ageing on the welfare state. It also contributes to the faster dismantling of traditional multi-generational family patterns, influences the growth in the share of elderly households and generates increasing demand for care services, which are otherwise normally provided within the extended family. On the other hand, the phenomenon of remittances, which reduce poverty and the need for state intervention in that segment, should not be disregarded. In 2013, in Kosovo, remittances increased the income of recipient households by almost 40% (Kosovo Agency of Statistics, 2013, p. 30). According to World Bank data, remittances as a share of GDP are very high in the Western Balkans, among the highest in Europe. In 2015, this share was particularly high in Kosovo (16.7%), but also ranged between 9% and 11% in Serbia, Albania, Montenegro, and Bosnia and

19 Nowadays, it is accepted that the efficiency of demographic policy should be assessed on the basis of outcomes in all spheres, i.e. also with respect to poverty reduction and women's employment (Letablier, Luci, Math, & Thévenon, 2009).

Herzegovina²⁰. Remittances, however, also potentially contribute to labour market rigidities by increasing reservation wages (Kovtun, Meyer Cirkel, Murgasova, Smith, & Tambunlertchai, 2014, p. 20) (Kosovo Agency of Statistics, 2013, p. 35). The fact that, in most countries, emigration implies strong brain drain raises the issue of prioritising investments within the education sphere (e.g. early childhood development versus higher education), and policies to attract returnees and/or exploit the advantages of the highly-educated diaspora come into consideration (Zeneli, Cosic, Dzebo, & Zmejkoski, 2013) (Gedeshi & Jorgoni, 2012). Finally, Croatia's experience testifies to the threat of a strong emigration wave in the years immediately following EU accession.

Long-term prospects give even more cause for concern, as depopulation and pronounced population ageing are expected to affect all parts of the Western Balkans. According to the UN projections until 2050, population will be on the decrease in all Western Balkan countries, with the most pronounced decline in Bosnia and Herzegovina, Croatia and Serbia. The share of people aged over 80 will grow from the current level of over 2% to between 9% and 10%, even in Albania and Macedonia (UNFPA, 2015, pp. 27-30).

3. Pronounced social problems – widespread poverty, high unemployment and labour market changes

In European terms, poverty and risk of poverty are high in the Western Balkans. In addition, absolute consumption poverty according to the poverty lines of 3.1, and even 1.9 international dollars²¹, still persists in all Western Balkan countries. As compared to the region, high poverty rates are recorded in Macedonia²², Albania and Kosovo.

In countries that also monitor absolute consumption poverty by national criteria, the proportion of the population unable to meet the basic needs is high, ranging from approximately 8% (Serbia, Montenegro, according to Household Budget Surveys 2014

20 <https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

21 PPP \$ or purchasing power parity dollars or international dollars. 1 PPP\$ can buy the same amount of goods and services as 1 dollar can buy in the USA.

22 The most recent comparable data on consumption poverty in Macedonia refer to 2008. For the given poverty lines, the World Bank has assessed, on the basis of the SILC survey, that the absolute and extreme income poverty rates in Macedonia stood at 11.7% and 6.3%, respectively, in 2013 (World Bank, 2016, p. 8). In countries with high in-kind income, measurement by income, rather than by consumption, inevitably results in higher values of this indicator.

and 2013, respectively) to as high as 14.3% in Albania (2012, according to the Living Standards Measurement Survey – LSMS). The poverty rates thus computed are not mutually comparable, but it should be noted that the surveys of living standard by consumption are based on the World Bank methodology²³.

Unlike these countries, Bosnia and Herzegovina opted to monitor relative consumption poverty, which stood at 17.9% in 2011, according to the Household Budget Survey²⁴.

According to the data for 2015, in the countries monitoring relative income poverty (Croatia, Serbia and Macedonia), the proportion of the population at risk of poverty is high, at over 20%. One in four people in Serbia is at risk of poverty, on a par with Romania, the country with the highest at-risk-of-poverty rate in the EU. The EU (28) average at-risk-of-poverty rate stood at 17.3% in 2015.

More detailed studies show that, in the Western Balkans, poverty is principally a rural phenomenon, and that the unemployed, undereducated and families with children, i.e. multi-person households, are the most vulnerable²⁵. The share of urban population in the structure of the poor is, however, also significant, especially in the countries that also monitor risk of income poverty, and the employed are increasingly at risk as well.

Regional disparities are also pronounced in all of the countries. For example, the population of Southern and Eastern Serbia is twice as poor as the average (consumption poverty rate of 18.0%), and the population of Kukës, Albania – 1.5 times as poor (poverty rate of 22.5%). In Montenegro, the population of the Northern and Central Regions is three times as poor as in the Southern Region (rates of 10.3% and 3.8%, respectively)²⁶.

In almost all of the countries, the Roma population is highly vulnerable and its poverty cannot be adequately assessed on the basis of regular consumption or income surveys. In the countries where UNICEF's MICS survey is conducted, the pronounced vulnerability of the Roma population is documented²⁷.

23 See, for instance, 'Metodologija procjene siromaštva u Crnoj Gori' <https://www.monstat.org/cg/page.php?id=73&pageid=73> and <http://www.instat.gov.al/en/themes/living-standard.aspx>

24 http://www.bhas.ba/saopstenja/2014/BHAS_HBS_BH_dv5-2.pdf

25 See the relevant sources cited under Table 3.

26 Ibid.

27 See, for instance: (Republički zavod za statistiku i UNICEF, 2015) (Kosovo Agency of Statistics, 2014) (Zavod za statistiku Crne Gore, 2014) (Ministarstvo za ljudska prava i izbjeglice Bosne i Hercegovine i Agencija za statistiku Bosne i Hercegovine, 2013)

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Table 3. Poverty in the Western Balkans region, different years (%)

| Country | AL | BA | HR | XK* | ME | MK | RS |
|---|-------------------|------------------|------------------|-------------------|------|------------------|------|
| Indicator | | | | | | | |
| Absolute consumption poverty, 1.9 2011 PPP \$ line (2013) | 1.1 ² | 0.1 ¹ | 0.9 ² | 0.8 | 1.0 | 1.3 ³ | 0.2 |
| Absolute poverty, 3.1 2011 PPP \$ line (2013) | 6.8 ² | 0.5 ¹ | 2.2 ² | 3.5 | 2.5 | 8.7 ³ | 1.3 |
| Absolute consumption poverty by national criteria (2013) | 14.3 ² | - | - | 29.7 ¹ | 8.6 | - | 8.6 |
| Consumption Gini coefficient (2013) | 26.9 ² | | | 27.6 ¹ | 26.2 | | 26.0 |
| Relative income poverty – at-risk-of-poverty rate (2015) | - | - | 20.0 | - | - | 21.5 | 25.4 |

Source: Absolute poverty in PPP \$ – World Bank database <http://povertydata.worldbank.org/poverty/home/>; Poverty by national criteria and Gini coefficient (Mijatović, 2014)(Zavod za statistiku Crne Gore, 2014) (World Bank, 2013)(INSTAT, World Bank, 2013)

At-risk-of-poverty – Eurostat database, Tables: *At-risk-of-poverty rate by poverty threshold, age and sex* – EU-SILC survey

Notes: ¹2011; ²2012; ³2008.

Judging by household budget surveys, inequality is still not high in the Western Balkans, with the Gini coefficient at about 26. The income Gini coefficient is significantly higher in Macedonia and Serbia (33.7 and 38.2 in 2015)²⁸, partly owing to the fact that, according to the EU SILC methodology, income does not include goods and services produced by the household for its own use (income in kind). Thus, the income gap between farming and other households widens, while the consumption gap is narrower.

The markedly unfavourable labour market characteristics in the Western Balkans represent one of the greatest challenges of both development and social policies. Employment and activity rates are low and unemployment rates high in all of the countries, and are dramatically worse than in the EU countries. At the same time, youth unem-

²⁸ Eurostat database, Tables *Gini coefficient of equivalised disposable income – EU-SILC survey*

ployment rates are around twice as high as the overall unemployment ²⁹. Even Croatia, whose labour market situation is better compared to other Western Balkan countries, still lags considerably behind the EU (28) average, especially when the gender aspect is taken into consideration.

Table 4. Labour market in the Western Balkans region, population 15–64, selected indicators, 2015 (in %)

| Country \ Indicator | AL | BA | HR | K* | ME | MK | RS | EU (28) |
|-----------------------|------|------|------|------|------|------|------|---------|
| Unemployment rate | 17.5 | 28.2 | 16.5 | 32.9 | 17.8 | 26.3 | 18.5 | 9.4 |
| Activity rate | 64.2 | 54.6 | 66.8 | 37.6 | 62.6 | 64.9 | 63.7 | 72.5 |
| Women's activity rate | 55.0 | 42.9 | 62.2 | 18.1 | 56.9 | 52.0 | 55.7 | 66.8 |
| Employment rate | 52.9 | 39.2 | 55.8 | 25.2 | 51.4 | 47.8 | 51.7 | 65.6 |

Source: EU (28) – Eurostat database, Tables *Unemployment by sex and age – annual average and Employment and activity by sex and age – annual data*; other countries and Kosovo – Labour Force Surveys 2015

Note: EU (28) unemployment rate refers to total population

The situation is particularly difficult in Kosovo, where only one in four people of working-age is employed, and one in three unemployed. In Bosnia and Herzegovina and Macedonia, the indicators are less favourable than in other Western Balkan countries.

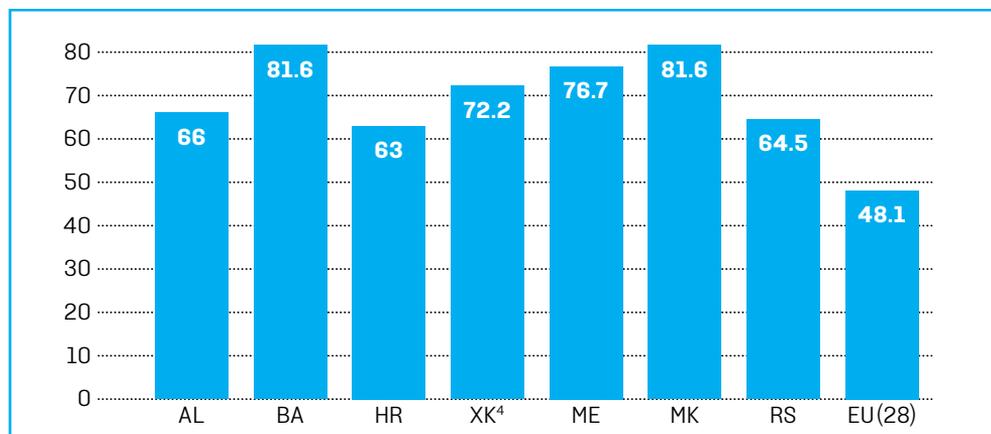
Structural characteristics reveal that the labour market situation is even worse than suggested by the overall figures, without disaggregation. Youth unemployment and inactivity, women's economic inactivity and share of the long-term unemployed are especially high. Even in Croatia, the youth unemployment rate is twice as high as in the EU (28), while in Bosnia and Herzegovina and Kosovo, its values are as high as 60% approximately. In Kosovo, women are practically absent from the labour market (activ-

²⁹ http://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_labour_market_statistics

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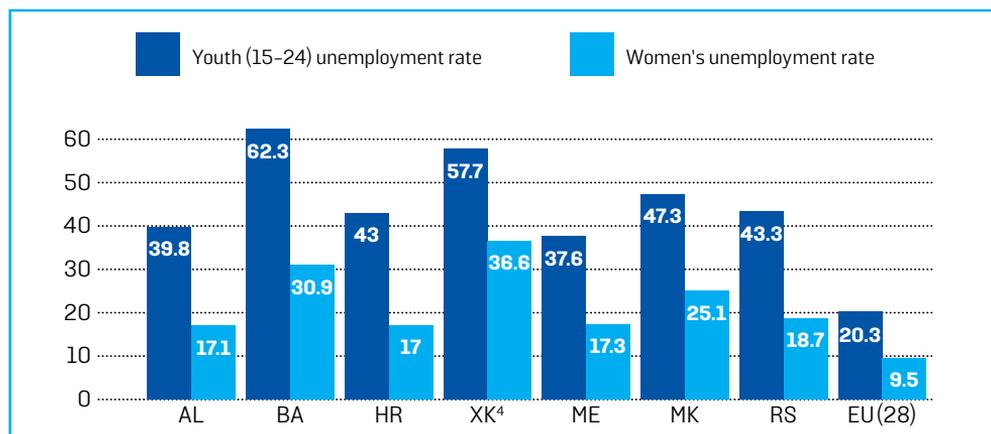
ity rate of only 18.1%), and low women's activity rates are characteristic of Bosnia and Herzegovina as well (42.9%).

Figure 1. Share of the long-term unemployed (over one year), 2015 (%)



Source: Labour Force Surveys 2015; Serbia – revised data (Republički zavod za statistiku Srbije, 2016); Albania (Instituti i Statistikave, 2016)

Figure 2. Youth and women's unemployment rates, 2015 (%)



Source: Labour Force Surveys 2015; Serbia – revised data (Republički zavod za statistiku Srbije, 2016); Albania (Instituti i Statistikave, 2016)

Finally, regional disparities are present as well. Thus, for instance, in Macedonia, the unemployment rate ranges from 16.7% in the South-Eastern Region to 43.2% in the North-Eastern Region (State statistical office of the Republic of Macedonia, 2016, p. 128). In Croatia, in 2016, the unemployment rate in the City of Zagreb was four times lower than that in the Virovitica – Podravina County (8.6% and 32.6%, respectively) (Ministarstvo regionalnoga razvoja i fondova Europske Unije, 2017).

The level of employment, in itself, is not an adequate indicator, as employment quality matters as well, given in particular the widespread informal economy in the Western Balkans. Labour Force Surveys show that in Serbia, Macedonia and Montenegro³⁰, one in five employed people in fact works in the informal economy (20.4%, 19.2%, 22.3%, respectively), and in Albania one in three (34.1%), noting that the figure pertains to those employed in the non-agricultural sector. This portion of the "employed" is mainly recruited from the poorer social strata (World Bank, 2016, pp. 33,35), has no access to social insurance and social protection, often earns less and does not contribute to the overall revenues of the public budget and social funds that provide funding for different entitlements. As a result of delayed transition, a substantial proportion of the employed works in agriculture, usually without access to the social protection system.

The adverse labour market situation is additionally burdened by the mismatch between education and the supply of jobs; knowledge and skills becoming outdated, especially when it comes to the long-term unemployed; employers' reluctance to invest in employee training; as well as the inadequate offer of adult education and life-long learning programmes (Arandarenko & Bartlett, 2012, p. 6).

In a recent analysis, the IMF no longer identifies institutional reasons, rigid labour market institutions (excessive protection against dismissal, high severance pay and unemployment benefits etc.) or high labour costs (although this issue is raised with respect to specific market segments in Serbia, B&H and Macedonia) as the primary underlying causes of the highly unfavourable labour market situation. The key problems are of a structural nature and concern macroeconomic stability and improvement of the investment climate (Kovtun, Meyer Cirkel, Murgasova, Smith, & Tambunlertchai, 2014).

Other research carried out by international institutions (ILO and World Bank) also highlights the issues of tax structure (direct versus indirect taxes), tax and social contri-

³⁰ http://www.nhdreport.me/download/Crna%20Gora_Nacionalni%20izvjestaj%20o%20razvoju%20po%20mjeri%20covjeka%202016_Neformalni%20rad.pdf

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butions burden on low-wage workers, as well as work disincentives in tax and social protection systems (Arandarenko, 2015, pp. 7–9).

Judging by the European Commission's comments on Economic Reform Programmes, it is essential to improve the capacities of employment services in all countries³¹.

Widespread poverty, substantial share of informal employment and, in particular, high unemployment impose high demands on the fragile welfare states in the Western Balkans. Social safety nets fail to protect a substantial portion of the poorest quintile; hence, the key flaws of these schemes are low coverage (high exclusion error) and benefit inadequacy (World Bank, 2011) (Tesliuc, Pop, Grosh, & Yemtsov, 2014). Despite the low inclusion error in most countries, the widespread grey economy, as well as other factors such as remittances from abroad or in-kind agricultural income, hamper targeting and preclude the expansion of schemes to avoid including those who are, in fact, not vulnerable.

Part of the problem certainly lies in legislative and institutional capacities, as well as lack of transparency and accountability (Gerovska–Mitev, 2015, p. 86). Large numbers of both poor and unemployed people pose a challenge to the capacities of social services (primarily social work centres in former Yugoslav states) and the capacities of national employment services. The gap between the size of the vulnerable population and the institutional capacities brings into question activation and other active labour market policies as a general strategy.

Finally, in the given circumstances, another challenge lies in setting adequate amounts of financial social assistance and other social benefits to enable meeting the basic needs without disincentivising work, in view of the relatively low levels of minimum and average wages (Matković, Mijatović, & Stanić, 2014, pp. 19–22). Studies on Serbia show that gradual assistance withdrawal, although attractive in the context of economic theory, requires a large increase in the allocations for financial social assistance (Žarković – Rakić et al., 2017).

In the longer run, with economic development, changes in traditional family roles and waning of religious and cultural influences³², higher labour market integration of women can be expected, especially in Bosnia and Herzegovina, Macedonia and Kosovo. Al-

31 http://europa.eu/rapid/press-release_MEMO-16-1912_en.htm

32 A study on Western Balkan labour market notes that an explanation for gender differences may be found in cultural and religious reasons, as well as the traditional role assigned to women (World Bank; Vienna Institute for International Economic Studies, 2017, p.7)

though a rise in economic activity and employment generally has a positive impact on economic development and reduces the pressure on social expenditures, these changes impose additional demands on the welfare state, shift the focus from the family to the state, especially in the sphere of child and elderly care, and necessitate higher expenditures on work–parenthood reconciliation.

The unfavourable labour market conditions, involving increasingly delayed entry of youth into employment, frequent career breaks and work in the grey economy, impair old-age security for the present generations (Schwarz A. M., et al., 2014). It is questionable to what extent pensions systems, which are primarily based on insurance, will be able to provide adequate pension benefits. Under such circumstances, the key challenge will no longer be pension system sustainability, but rather sustaining the living standard of the elderly and elderly poverty.

4. Changes in household structure – not yet alarming, the challenge lies in near future

In line with the concept of the second demographic transition (Lesthaeghe, 2014), most developed European countries face not only the sustained low fertility rate, but also changes in the sphere of nuptiality and a rise in alternative family forms. The rise in cohabitation, divorce, out-of-wedlock fertility and single-parent families, on the one hand, and the disappearance of the extended family, on the other, affect the needs for expanding welfare state activities.

Changes are taking place in Western Balkan countries as well; thus, Serbia and Croatia are approaching the EU (28) figures in terms of average household size, and even share of single-person households. The Western Balkans region is, however, also polarised in this sphere by disparities in the stages of demographic transition and age structure. Thus, in Kosovo, the household size is almost three times larger, and the share of single-person households ten times lower than in the EU (28), while in the majority of Western Balkan countries, the values of these two indicators lie between the recorded "extremes". Yet, both in Albania and in Macedonia, households are almost twice as large as in the EU countries, and the single-person household model has not become widespread.

The disparities are, however, not as wide when data on divorce are considered. The general divorce rate stands at about one in most countries, considerably below the EU

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(28) level. Somewhat slower changes in nuptiality, at least in some countries, can partly be attributed to the widespread poverty, as well as efforts to preserve the existing standard of living. In Serbia, during the long-lasting economic, social and political crisis of the 1990s, a decline in divorce was even recorded, under the conditions of "compulsive conservation of marriage and family, freezing conflicts and blocking transformation processes" (Bobić & Vukelić, 2011, p. 163). Some researches have shown that in Serbia, as a result of adaptive strategies, a substantial number of single-parent families, and even cohabiting unions, resort to living in extended family units (Petrović, 2011, p. 65).

Table 5. Average household size, share of single-person households and general divorce rates, 2015

| Country | AL | BA | HR | XK* | ME | MK | RS | EU (28) |
|---|------------------|-------------------|------|------------------|-------------------|-----|------|------------------|
| Indicator | | | | | | | | |
| Average household size (2015) | 3.9 ¹ | 3.1 ³ | 2.8 | 5.9 ¹ | 3.2 | 3.7 | 2.9 | 2.3 |
| Share of single-person households(2015) (%) | 6.5 ¹ | 18.8 ³ | 24.9 | 2.9 ¹ | 18.1 ¹ | 9.7 | 22.3 | 32.3 |
| General divorce rate (2013) (‰) | 1.3 | 0.6 ² | 1.4 | 0.7 ² | 0.8 | 1.0 | 1.1 | 2.0 ¹ |

Source: Average household size – Average household size – EU-SILC survey, B&H (Agencija za statistiku Bosne i Hercegovine, 2016). Kosovo (Kosovo Agency of Statistics, 2011), Montenegro (Vlada Crne Gore Zavod za statistiku, 2016)

Share of single-person households: Serbia, Macedonia, Croatia and the EU (28) – Eurostat database, Tables *Distribution of households by household type from 2003 onwards – EU-SILC survey*, B&H (Agencija za statistiku Bosne i Hercegovine, 2016), Kosovo (Kosovo Agency of Statistics, 2011), Montenegro (Zavod za statistiku Crne Gore, 2013), Albania (De Bruijn, Eelens, Schoorl, Galanxhi, Nesturi, & Hoxha, 2014)

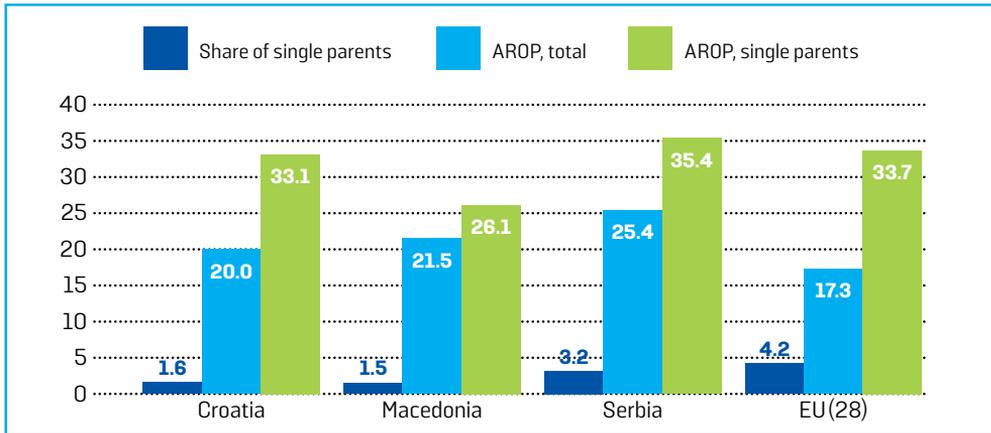
Divorce rate – Eurostat database, Tables *Divorce indicators, Albania* (Institut i Statistikave, 2014)

Notes: ¹ 2011, ² 2012 ³ 2013

According to the SILC data, the share of single parents in the total number of households in Croatia and Macedonia is also low, almost two times lower than the EU (28) average. This share is higher in Serbia, although still considerably lower than in coun-

tries where the second demographic transition has advanced (over 5%, and even 6% in most of the highest-developed EU countries).

Figure 3. Share of single-parent households with dependent children, at-risk-of-poverty rates, total and single-parent households, 2015 (%)



Source: Eurostat database, Tables *Distribution of households by household type from 2003 onwards – EU-SILC survey* and *At-risk-of-poverty rate by poverty threshold and household type – EU-SILC survey*

The challenges faced by the welfare state owing to changes in family patterns are primarily reflected in the diminishing role of the family in the provision of protection, childcare and, in particular, long-term care. Fewer traditional extended family units, combined with higher women's employment rates and changing gender roles, weaken the family capacities to provide elderly and child care and create scope for higher involvement of commercial providers or public institutions in this sphere. On the other hand, the rising number of single-parent families, who generally live in the conditions of higher economic and social insecurity, also calls for higher support from society (Esping-Andersen G., 2006). As shown in Figure 3, single-parent households are significantly more vulnerable than the average, especially in the EU countries. In view of the research findings referred to above, it may be the case that the smaller differences in vulnerability between single-parent households and the general population in Western Balkan countries are a result of the fact that the poorer ones remain within extended families by choice/out of necessity, while only those not vulnerable to an above-average extent establish their own households.

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The pressure on welfare state expenditures to provide child and elderly care services, as well as the pressure resulting from higher financial support to single-parent families, will certainly represent a challenge that has not fully manifested itself yet, especially in the countries where changes in the family sphere are still not pronounced (Albania, Macedonia). In Kosovo, where half of all individuals still live in extended families and women's economic activity is very low, the challenge will emerge with a considerable time lag.

The growing number and share of elderly households, especially single-person ones, owing to disintegration of traditional families, population ageing and emigration, already poses a challenge to Serbia and Croatia. It is particularly pronounced at the level of small, underdeveloped emigration municipalities, especially in view of the fact that social care services are funded from local government budgets. According to the SILC data for 2015, in Croatia 29% of the elderly live in elderly single-person households, and in Serbia 24.5%³³. In the future, these countries, as well as the entire Western Balkans region, can expect to face an accelerated rise in elderly households, as well as growing vulnerability and demand for social care services.

5. Education and health care quality is inadequate

Both health and education outcomes are unfavourable, reflecting the inadequate quality of the welfare state and further compounding the far-reaching challenges faced by the social sector.

The PISA³⁴ survey results are a possible indicator for assessing both quality and efficiency of education. The share of students having simultaneously low achievements in scientific, reading and mathematical literacy is very high in all Western Balkan countries except Croatia (14.5%). However, not even Croatia can be satisfied with its results when compared to most EU countries, where the corresponding figure rarely exceeds about ten percent. The European Commission (2015, p. 4) notes that in Croatia students primarily lag behind in mathematical skills. In Macedonia and Kosovo, the share of students with low achievements in all three areas exceeds 50% (OECD, 2016).

³³ The corresponding figure for Macedonia is almost two times lower (15.1%). Eurostat database, Tables: *Distribution of population aged 65 and over by type of household - EU-SILC survey*

³⁴ PISA – Programme for International Student Assessment

The 2015 data on early school leaving are concerning primarily in Albania and Bosnia and Herzegovina, as over 20% of youth (18–24) who have finished lower secondary education do not participate in further education or training.

The disparities compared to the EU (28) are especially pronounced in the sphere of early childhood development and participation in pre–school education in all countries on which data are available. In Macedonia, only about one in four children attend pre–school education.

Finally, with the exception of Croatia, the share of individuals aged 30–34 who have attained tertiary education is low in all countries, especially Albania and Bosnia and Herzegovina, where the figures are two times lower than in the EU (28) – only 16.8% and 18.9%, respectively.

The MICS data reveal the extent to which all education indicators are less favourable for the Roma population and other vulnerable ethnic minorities in the Western Balkans (Ministarstvo za ljudska prava i izbjeglice Bosne i Hercegovine i Agencija za statistiku Bosne i Hercegovine, 2013) (Kosovo Agency of Statistics, 2014) (Republički zavod za statistiku i UNICEF, 2015). Earlier research in Serbia also shows that, when it comes to functional illiteracy, the education outcomes of the poorest population are far weaker compared to the general population (Baucal & Pavlović Babić, 2009).

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Table 6. Selected education and health care quality indicators, 2014 and 2015

| Country \ Indicator | AL | BA | HR | XK* | ME | MK | RS | EU (28) |
|---|-------------------|------|------|------|-------------------|------|-------------------|---------|
| Share of students with low achievements (below level 2) in all three test areas (2015) (in %) | 31.1 | - | 14.5 | 60.4 | 33.0 | 52.2 | 28.5 ² | - |
| Early school leaving (2015) (in %) | 21.3 | 26.3 | 2.8 | - | 5.7 | 11.3 | 7.5 | 11.0 |
| % of age group 30-34 with tertiary education attainment (2014) | 16.8 ² | 18.9 | 32.2 | - | 28.3 | 24.9 | 27.2 | 37.9 |
| Share of 4-year olds in pre-school education (2015) | - | - | 59.6 | - | 50.0 | 26.7 | 51.3 | 91.8 |
| Life expectancy (2014) | 77.8 | 76.4 | 77.3 | 71.1 | 76.2 | 75.3 | 75.5 | 80.9 |
| Infant mortality rate (2014) (in ‰) | 7.9 | 4.8 | 5.0 | 6.6 | 4.9 | 9.9 | 5.7 | 3.7 |
| Self-reported unmet needs for medical treatment (first quintile) (2015) | - | - | 2.6 | - | 13.3 ² | 4.7 | 8.5 | 4.1 |

Source: Share of students with low achievements – PISA (OECD, 2016); % of age group 30-34 with tertiary education attainment and early school leaving – Eurostat database, Tables *Candidate countries and potential candidates: education*, Croatia and the EU (28) – Tables *Tertiary educational attainment, age group 30-34 and Early leavers from education and training, age group 18-24*; Share of children in pre-school education – Eurostat database, Tables *Pupils in early childhood and primary education by education level and age – as % of corresponding age population*; Life expectancy – World Bank database <http://databank.worldbank.org/data/reports.aspx?source=2&series=SP.DYN.LE00.IN&country=>

Infant mortality rate – *Candidate countries and potential candidates: population – demography*, Croatia and the EU (28) – Eurostat database, *Infant mortality rate*; Eurostat database, Tables *Self-reported unmet needs for medical examination by sex, age, detailed reason and income quintile*

Note: ¹2012, ²2013

Health care quality and accessibility are most commonly assessed by means of the indicators "life expectancy" and "infant mortality rate", considered to be approximate indicators of population health status³⁵.

Despite constant increases, the life expectancy in Western Balkan countries lags behind the EU (28) average by between 3 and 5 years. The life expectancy in Kosovo is low by European standards, at only 71 years. This indicator records the highest values in the highest-developed Croatia and in Albania. However, Republic of Albania Institute of Statistics research points to a discrepancy between the life expectancy data, on the one hand, and the general situation of Albania's health sector and the infant mortality rate, on the other. Bruijn et. al. (2014, p. 96) assess that there are problems with incomplete death registration and that the life expectancy in Albania is, in fact, lower (74.5 years, according to socio-economic indicators).

The infant mortality rate is substantially higher in the Western Balkans than in the EU, and especially high in Macedonia, Albania and Kosovo. In the EU, such high values of this indicator are recorded only by Bulgaria and Romania (7.6‰ and 8.4‰).

Inequality in access to health care is another important element of quality, which is unsatisfactory, judging by the higher infant mortality rates of specific ethnic minorities, especially the Roma. Thus, in Serbia, the infant mortality rate among the Roma living in Roma settlements is twice as high as in the general population, reaching 13‰ (Republički zavod za statistiku i UNICEF, 2015), in Bosnia and Herzegovina – almost 5 times as high, at 24‰ (Ministarstvo za ljudska prava i izbjeglice Bosne i Hercegovine i Agencija za statistiku Bosne i Hercegovine, 2013), while in Kosovo, the infant mortality rate among the Roma, Egyptians and Ashkalis is as high as 41‰ (Kosovo Agency of Statistics, 2014). Infant mortality rate at such a high level as in Kosovo has been recorded only in some South Asian and Sub-Saharan African countries.

The inadequate quality in some countries leads to stratification in using health care. The more affluent population segments increasingly use private-sector services paid out of pocket. Thus, for instance, in Albania, the share of out-of-pocket payments accounted for almost half of the total health care expenditures. The respective share is also high in Montenegro (42.8%), Macedonia and Serbia (36.7% and 36.6%)³⁶.

35 The EU has developed many social indicators in the area of health and long-term care, a considerable number of which cannot be monitored in many Western Balkan countries (Indicators Sub-Group of Social Protection Committee, 2015)

36 World Bank database, 2014 data, <http://data.worldbank.org/indicator/SH.XPD.OOPC.TO.ZS>

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On the other hand, owing to high cost, the needs for treatment remain unmet, especially among the poorer strata. Thus, in Serbia, 8.5% of the people in the first quintile report being unable to meet these needs for financial reasons, while in Montenegro the proportion stand at 13.3%. The proportion of the population reporting inability to meet the needs for treatment grows if other reasons are taken into consideration, e.g. remoteness of health care facilities or waiting lists, and especially if the needs for dental care services are included.

Subpar education and health care in the Western Balkans call for a sizeable increase in investment, as well as the implementation of reforms to enhance both efficiency and equity of the two systems. Creating budgetary space for higher investment in a situation of careful scrutiny of public expenditure is no mean feat, even in much richer societies. The challenge is only slightly alleviated by the awareness of the importance of education and health for the quality of human capital, and thereby also of their impact on competitiveness and economic development.

In terms of complexity, the task of designing and implementing reforms to improve quality and accessibility surpasses even the issue of funding shortage. This is perhaps best illustrated by the following observation from Serbia's *Employment and Social Reform Programme in the Process of Accession to the European Union* (Vlada Republike Srbije, 2014, p. 20): "The reform initiatives in the formal pre-university education, launched since the year 2000, have been short-lived, strategically asynchronous and partial, and very often remained unfinished." Another notable challenge faced by the weak administrative capacities is the establishment of a quality assurance system.

6. Allocations for the social sector – low and inadequate to ensure social protection; evident microefficiency problems

The allocations for the social sector in the Western Balkans are below those in the EU (28) in both relative and, especially, absolute terms.

The data on social protection according to the ESSPROS methodology available in the Eurostat database show that, in 2013, Croatia's allocations for these purposes as a share of the GDP were almost 7 percentage points lower than the EU (28) average (21.6% compared to 28.7% of the GDP), while, in absolute terms, they were more than

two times lower (3460 compared to 7900 PPS per capita). Serbia lagged not so far behind in relative terms ("pessimistically" speaking, the burden of social sector expenditures is higher), but its allocations were even three times lower in absolute terms (2352 PPS per capita). Such low allocations in absolute terms do not, however, necessarily imply the state's inability to protect those targeted by the benefits, as the adequacy of social cash transfers is primarily assessed against the standard of living and wages in a given country (e.g. for insurance-based benefits, the indicators of adequacy are the replacement rates).

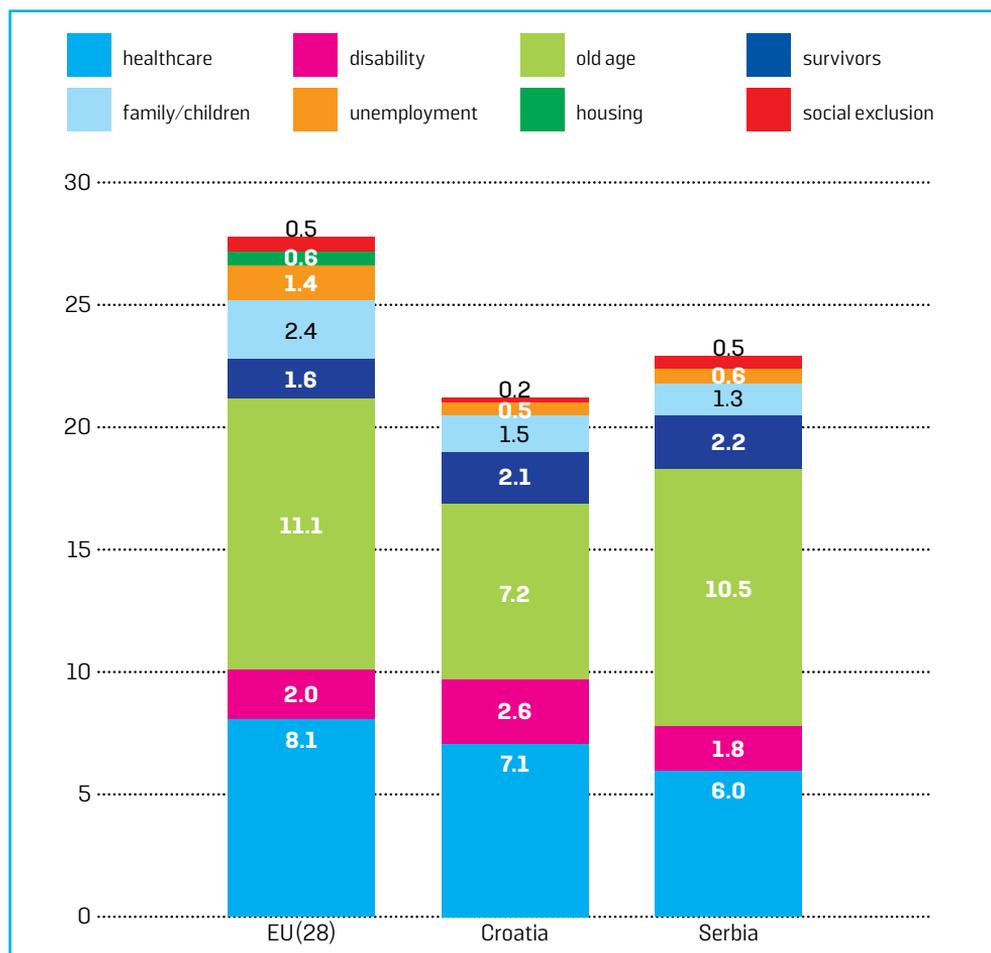
In both countries, the expenditures on education are below the EU (28) average; however, the structure of these expenditures is a crucial issue, especially with regard to the respective shares of teachers' pay and of investments in education quality and reforms in the total expenditures.

Figure 4 shows which sectors may be burdened with possible (micro)inefficiencies. Thus, in relative terms, Serbia has lower allocations for the health care function, and, owing to the high burden imposed by the pension bill, it approaches the average in terms of the expenditures for the elderly, whereas Croatia has above-average allocations for the disability risk/function, probably owing to the high allocations for veterans (Stubbs & Zrinščak, 2015). Both Croatia and Serbia have lower allocations for the family/children function, which is, amongst other factors, a result of targeted, rather than universal child allowance schemes, and for the unemployment function, since neither country has an unemployment assistance scheme³⁷, the number of unemployment benefit recipients is not large owing to the prevalence of the long-term unemployed and the considerable proportion of first-time job-seekers, and the expenditures on active labour market policies are low, especially in Serbia (0.015% of the GDP in 2014) (Vlada Republike Srbije, 2014, p. 18). The social exclusion expenditures (primarily financial social assistance) are also low in Croatia.

³⁷ In many countries, unemployment assistance is disbursed after the expiry of the unemployment benefit entitlement; according to the ESSPROS methodology, both benefits are under the unemployment function/risk. http://ec.europa.eu/eurostat/statistics-explained/index.php/Social_protection_statistics_-_unemployment_benefits

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Figure 4. Share of expenditures by social protection risks/ functions (% of GDP), Croatia, Serbia and the EU (28), 2014



Source: Eurostat database, Tables *Expenditure: main results*

Finally, the SILC data provide an insight into the effectiveness of social transfers. A comparison of the at-risk-of-poverty rates before and after social transfers (excluding pensions) enables an assessment of the extent to which different cash transfers succeed in alleviating population vulnerability in individual countries. The effectiveness of social transfers (excluding pensions) in Serbia in 2015 (31.7%) did not lag significant-

ly behind the EU (28) (33.5%)³⁸, and in Croatia it even exceeded this level (35.5%)³⁹. Hence, in the European matrix for 2014, Croatia was among the efficient, low spending (in terms of the social protection spending excluding pensions relative to GDP), high poverty reduction countries (European Commission, 2016, p. 7). Serbia is still assessed as a low spending, low poverty reduction country.

Conclusions about social protection and education expenditures in other Western Balkan countries may only be drawn on the basis of national statistics, which are not comparable to the ESSPROS methodology. Judging by the data presented in Economic Reform Programmes, Albania and Kosovo are distinct from other countries for their low expenditures on social protection, excluding in-kind health care⁴⁰ (partly owing to their younger population structure), very low share of health care expenditures (only 2.8% of the GDP), and Albania also for its very low education expenditures (2.9%). The high share of health care and education expenditures in Bosnia and Herzegovina, on the other hand, is a result of a complex and highly decentralized governance structure⁴¹, with health and education indicators below the regional average (IMF, 2015, pp. 7-8).

38 The ineffectiveness of social transfers in the EU, on average, is primarily due to the low rates recorded in South European countries (Greece, Italy, Spain), as well as most new Member States (except Slovenia, Hungary and the Czech Republic).

39 Eurostat database, Table *Impact of social transfers (excluding pensions) on poverty reduction (%)*

40 Social protection consists, for the most part, of expenditures on pensions, but also includes other social benefits and social care services.

41 The system is highly fragmented and inefficient, with 13 ministries and as many health insurance funds (IMF, 2015, p. 7).

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Table 7. Public expenditures on social protection, health care and education as a share of the GDP, 2014 (%)

| Country | AL | BA | HR | XK* | ME ² | MK | RS | EU (28) |
|--|-----|------|------------------|-----|-----------------|------|-------|------------------|
| Indicator | | | | | | | | |
| Social protection ¹ (ESSPROS) | - | - | 21.6 | - | - | - | 23.4 | 28.7 |
| of which health care | | | (7.1) | | | | (6.0) | (8.1) |
| Social protection excluding in-kind health care ¹ (ERP) | 9.1 | 14.1 | - | 4.8 | 13.4 | 11.4 | - | - |
| Health care | 2.8 | 6.9 | - | 2.8 | 5.9 | 4.9 | - | - |
| Education | 2.9 | 5.3 | 5.1 ³ | 4.1 | 4.5 | 3.9 | 4.2 | 5.3 ³ |

Source: Social protection for Serbia, Croatia and the EU (28) – Eurostat database, Tables *Expenditure: main results*; Education for Serbia Eurostat database, Tables *Candidate countries and potential candidates: education* Croatia (Evropska komisija, 2015)

For other countries data taken from Economic Reform Programmes; B&H (BiH Council of Ministers, 2016), Albania (Government of Albania, 2016), Macedonia (Republic of Macedonia, 2016), Montenegro (Government of Montenegro, 2017) and for Kosovo (Republic of Kosovo, 2016)

Note: According to the ESSPROS methodology, social protection expenditures include health care expenditures. In ERP, social protections expenditures do not include expenditures for in-kind health care benefits

²2015³2013

The above data point to several challenges faced by welfare states in the Western Balkans. Firstly, in some countries, part of the social sector budget is "trapped" for political reasons and/or its structure is largely path dependent (for the elderly in Serbia or veterans in Croatia and Bosnia and Herzegovina, for example). It is clear that the level of expenditures in Bosnia and Herzegovina is strongly influenced by the inefficient, highly decentralised system, with more than a dozen ministries of education and health. Insufficient allocations for specific purposes, on the one hand, and the unwillingness to reform the benefits awarded to privileged groups, on the other, or the espousal of clearly inefficient solutions for populist and "purely" political reasons are not maladies specific to Balkan countries, but their consequences are graver under the conditions of

widespread poverty and inadequate protection afforded to certain vulnerable groups outside the ranks of the privileged (persons with disabilities, for example).

Secondly, differences in age structure affect the structure of expenditures, but the low share of health care expenditures in Kosovo and Albania is attributable to them only to a small extent, especially in view of certain adverse outcomes in this sphere (e.g. high infant mortality rates, Table 6). Interestingly enough, Macedonia, whose indicators are also unfavourable and the share of health care expenditures lags behind those of Croatia and Serbia, and even further behind that of the EU, is planning a gradual increase of this share, but only to 5.5%, and in 2060 (Republic of Macedonia, 2015, p. 41). On the other hand, in the long run, it is health care expenditure curbing that will pose the greatest challenge to the Western Balkans, considering not only population ageing and rising expectations, but also modern technologies and medicines, which create high pressure to increase allocations for these purposes. Furthermore, if they are to prevent the outflow of doctors and other health care professionals, Western Balkan countries will need to raise pay levels as well, at least in some segments of health care.

Thirdly, the low share of education expenditures, particularly in Albania, reduces the chances of making use of a crucial economic development potential, and also of reducing inequality and poverty in the long term. Other countries' expenditures are not sufficient either, especially in view of the fact that additional budgetary space would have to be provided within education expenditures for quality improvement, inclusion of children with disabilities, early childhood development and education, life-long learning and reforms relevant to matching labour market needs. More in-depth analyses of microinefficiencies in each segment of the social sector could, additionally, point to other problems in individual countries, such as inordinately high share of expenditures on primary education as a result of slow school network adaptation to the declining number of children, suboptimal share of allocations for primary health care and public health, inadequate share of expenditures targeting the poorest etc.

7. Government and public sector efficiency and effectiveness assessments are unfavourable

The gap between the great needs and meagre resources for social purposes in the Western Balkans is additionally widened by the inefficient and "failed, weak, authoritarian, and captured/clientelist states"(Stubbs, 2005, p. 73). According to the World

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Bank assessment, in Western Balkan countries, the public sector is large and inefficient, delivering public services that are too expensive (Svetska banka, 2015, p. 20).

The measurement of public sector and government efficiency and effectiveness is largely based on perceptions, which, despite not being objective indicators, can serve as an approximate assessment.

The World Bank uses 6 indicators to measure the quality of governance, including government effectiveness⁴². This indicator captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The indicator value is expressed in units of a standard normal distribution, running from approximately -2.5 to 2.5, and the percentile rank shows where in the distribution a given country is positioned relative to other countries worldwide.

According to the "government effectiveness" indicator, most Western Balkan countries lag considerably behind developed countries and fall between 54th and approximately 60th percentile, around the average in global terms. For instance, this indicator stands at 1.85 in Denmark, and, according to its citizens' perceptions of government effectiveness, Denmark fares better than 97.6% of the countries worldwide (percentile rank).

The perception of government effectiveness is notably low in Bosnia and Herzegovina and Kosovo. In the Western Balkan region, assessments of perception are based on 6-10 different surveys and data sources.

42 <http://info.worldbank.org/governance/wgi/index.aspx#home>

Table 8. Government efficiency and effectiveness, 2015

| Country \ Indicator | AL | BA | HR | XK* | ME | MK | RS |
|---|----------------|------------------|-----------------|------------------|----------------|-----------------|-----------------|
| "Government effectiveness" indicator and percentile rank | 0.03 (54.8) | -0.54 (33.65) | 0.51 (71.63) | -0.42 (39.42) | 0.16 (60.1) | 0.13 (58.65) | 0.11 (58.17) |
| Government efficiency (WEF) (2016–2017 issue) and ranking | 3.6 (66) | 2.5 (133) | 2.4 (136) | - | 3.6 (69) | 3.7 (60) | 2.8 (122) |

Source: "Government effectiveness" indicator – World Bank database <http://info.worldbank.org/governance/wgi/index.aspx#home>; "Government efficiency" indicator – World Economic Forum database <http://reports.weforum.org/global-competitiveness-index/downloads/>

The World Economic Forum's Global Competitiveness Report allows an insight into perceptions of government efficiency or public sector performance⁴³. Top executives rate, on a scale of 1 to 7, wastefulness of government spending, burden of government regulation, efficiency of legal framework in settling disputes and challenging regulations, and transparency of government policymaking.

The data in Table 8 show that, in Western Balkans, the perceptions of public sector performance are less favourable than in most of the highly-developed EU countries. By this indicator, half of Western Balkan countries are around the middle of the list of countries covered by the survey, with average ratings of 3.6 and 3.7. The remaining countries are near the bottom of the list, with Croatia, ranked 136th, having the lowest government efficiency rating of 2.4. The highest-ranking EU countries include Finland, Luxembourg and Sweden, while Italy's public sector has received the lowest rating and occupies the penultimate, 137th place of all countries covered by the survey.

Western Balkan public sector inefficiency and ineffectiveness reduce the chances of better utilisation of resources, which is the key strategy for enhancing the welfare

43 In earlier reports and in the database, the indicator is titled 'government efficiency', while in the most recent report it is titled 'public sector performance'. The weight attributed to public-sector performance is 20% within the category 'Institutions', which is one of the 12 pillars on the basis of which the Global Competitiveness Index is calculated (Schwab, 2016, p. 39).

state under the circumstances of scarce funds, unsatisfactory social situation, poor service quality and numerous other challenges creating pressure to increase social sector expenditures.

8. Globalisation and integration – further challenges in (immediate) future

The phenomenon of globalisation is commonly cited as a challenge to welfare states, primarily as a factor that restricts independence in national social policy making. In the context of developed European societies, the loss of independence chiefly implies that the "too costly" welfare states cannot be competitive under the circumstances of globalisation and competition with countries that are free from the burden of high taxation and social entitlements. This thesis is tested in both theoretical and empirical terms, with varying findings. Besides the outcomes entailing the inevitable "race to the bottom", evidence to the contrary is presented as well, arguing that globalisation creates new risks which require a stronger welfare state, and also that higher investment in the social sector is a prerequisite of competitiveness (Castles, 2004) (Gilbert & Terell, 2010) (Bar, 2013) (Chen, Görg, Görlich, Molana, & Temouri, 2014).

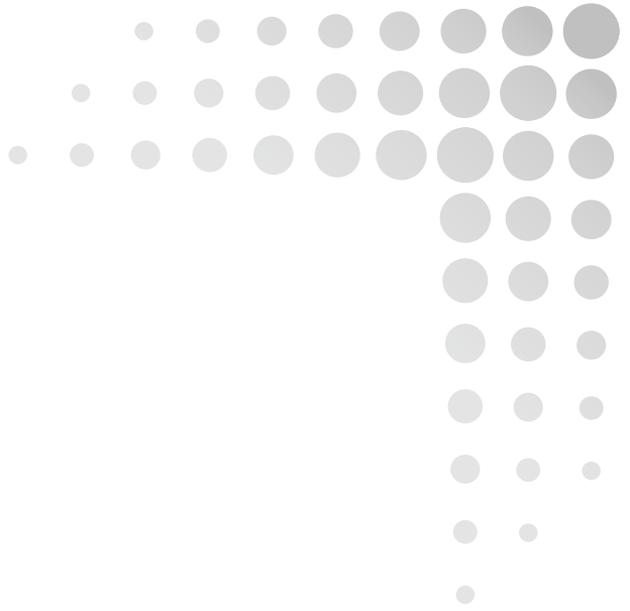
In the context of the Western Balkans, globalisation is analysed also from the aspect of influence of international institutions on social policy (Deacon, Lendvai, & Stubbs, 2007); however, for most of the countries, a particular future challenge lies in European integration and possible EU accession.

Clearly, no significant direct impact in this sphere can be expected at the candidacy stage, despite minor improvements compared to the Croatian experience (Stubbs & Zrinščak, 2005), which are reflected primarily in the requirement to develop a detailed *Employment and Social Reform Programme in the Process of Accession to the European Union*⁴⁴. Additionally, as of 2015, the Western Balkan countries prepare annual Economic Reform Programmes (ERP), focusing among other areas on three segments relevant for the welfare state: education and skills, employment and labour markets and social inclusion, poverty reduction and equal opportunities. Yet, as Stambolieva concludes in the case of Serbia and Macedonia, "The EU failed to make a distinct influence in the area of welfare, mainly because of the focus on other issues (the name issue and

44 <http://www.minrzs.gov.rs/cir/dokumenti/pio/item/5782-program-reformi-politike-zaposljavanja-i-socijalne-politike-u-procesu-pristupanja-evropskoj-uniji-employment-and-social-reform-programme>

the status of Kosovo) which slowed down the pace of EU approximation" (Stambolieva, 2014, p. 290). According to Stubbs and Zrinščak, Croatia's European Union accession process not only failed to reduce clientelism, but also expanded the possibilities for deepening it (Stubbs & Zrinščak, 2015, p. 402).

In itself, the accession of Western Balkan countries to the EU, although still an uncertain and distant prospect, can bring advantages, but also implies challenges. European integration can directly contribute to enhancing the Western Balkan welfare states owing to "soft" pressures to reach certain standards in the social sphere, experience sharing and transfer of knowledge and ideas, imposing requirements to adopt relevant social sector strategies and reports, expert inputs in regular monitoring processes, possibilities of utilising education institutions, as well as access to European Social Funds. There are also clear potential indirect influences, primarily in the economic sphere, as well as in terms of reinforcing the rule of law and strengthening democratic institutions. Challenges are, however, also potentially important, ranging from additional expenditures competing with social protection (in some countries, owing to membership not only in the EU, but also in the NATO), to creation of overly high expectations among citizens in terms of the capacities to meet various needs, imposing priorities and inordinately high standards, to lack of capacities to use European funds, or to accelerated emigration, which may have a particularly high impact on the Western Balkan welfare states in the future. Ultimately, the response to these challenges and the formulation of social policy in each country amid globalisation and Europeanisation will be decisively informed, as noted by Zrinščak (2006, p. 25), by historical legacy and national capacities.



Strategic Choices and Options

The challenges faced by welfare states in the Western Balkans are pronounced and, partly, specific. Firstly, most of the countries have a very low gross domestic product, unfavourable social situation, high unemployment and inadequate education and health outcomes, as well as inefficient executive government and administration. High emigration, high share of long-term unemployment, as well as widespread grey economy are specific challenges; in the future, welfare states can also expect to be particularly affected by intensifying changes in household structure and acceleration of European integration. The allocations for the social sector are low in absolute terms, with prospects of a certain growth if any economic development can be expected in the region as a whole. The existing and emerging challenges, as well as the possible increase of investment in the social sector under the assumption of growing budgets, create the need to review the different strategic choices and options to facilitate the enhancement of welfare states in the Western Balkans.

The text below highlights some of the possible strategic choices and options. For a more acute insight, "theoretical", simplified options are outlined, although the reality will inevitably involve a policy mix that is not necessarily consistent with one single strategic direction.

1. Small welfare state focused on protecting the poor

A possible strategic option for Western Balkan welfare states is to (re)focus on relatively low social protection spending, but with a substantial share of cash and in-kind benefits targeting the poorest population.

According to the World Bank criteria, in the EU framework this would imply the spending on social protection excluding health care⁴⁵ of under 16% and the coverage of the

45 For the purposes of the present analysis, the definition of social protection has been somewhat modified compared to the ESSPROS methodology, the main difference being the exclusion of health care expenditures (World Bank, 2015, p. 51).

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population in the poorest quintile by non-contributory social benefits⁴⁶ of over 60%. The countries in this group are designated as "small balanced welfare states". By this criterion, Croatia, the only EU Member State among the Western Balkan countries, is a "limited welfare state" in terms of relatively low spending for these purposes and low coverage of the vulnerable (World Bank, 2015, p. 38).

The choice of a **small welfare state** is considered appropriate for less developed countries, in the interest of the competitiveness afforded by low tax burden and/or the creation of budgetary scope for expenditures conducive to development opportunities (investment in infrastructure, environment, research and development and the like). In the case of the Western Balkans, in most countries this choice imposes itself also owing to high budgetary deficit levels and high debt-to-GDP ratios. Small welfare states also prevail among new EU Member States.

For most Western Balkan countries, except Serbia and Croatia, this choice does not represent a problem in technical terms, given the current relatively low levels of public social sector spending. The challenge to Bosnia and Herzegovina lies primarily in the dysfunctional, highly decentralised government structure, which, by its very nature, requires high expenditures.

Higher welfare state focus on the poor raises a range of politically difficult issues, as well as substantive choices. Two sets of issues for discussion and analysis ensue. Firstly, what are the entitlements that should be introduced or expanded in each country to provide greater protection to the poor (social assistance, social housing for the most vulnerable, free-of-charge services for poor persons with disabilities, free-of-charge long-term care services for the poor elderly,, higher amounts of and wider coverage by child allowance and social care services for the most vulnerable families, scholarships for poor students, benefits for vulnerable energy customers, free legal aid, pensions for poor elderly persons not covered by insurance, investments to cover the Roma living in substandard settlements by health care and education, etc.). In this context, it is also essential to consider the design of possible additional programmes and their impact on increasing the budgetary expenditures on the social sector. The second, even more complex set of issues concerns the shift from categorical to targeted benefits and curbing the expenditures on entitlements under pension insurance. In that respect, notable problems in some Western Balkan countries include benefits for disabled war veterans (Bosnia and Herzegovina, Croatia) and pension expenditures (Serbia). In Macedonia and Montenegro, this group would include, for instance, entitlements awarded to mothers upon birth of children of higher birth order.

⁴⁶ Social assistance programmes, according to the World Bank terminology.

In the long run, in the countries where the welfare state is already relatively large, the choice of this option would entail not increasing the ratio of social sector expenditures during a certain period, while changing their structure towards greater protection of the poor. In the countries with a small welfare state, GDP growth would result in greater budgetary scope for the social sector, which should, in turn, be used to expand those entitlements that are subject to a means test or that cover the most vulnerable population to an above-proportionate extent.

2. Universal entitlements

The strategic choice to provide universal entitlements and services in the social sector represents an alternative to a small welfare state focused primarily on the poor. In its "pure" form, this option essentially leads to the establishment of a social-democratic regime (Esping-Andersen G., *The Three Worlds of Welfare Capitalism*, 1990) and certainly does not entail a small welfare state.

In case of Western Balkan countries, higher presence of universal entitlements and services irrespective of the beneficiaries' material or labour market status would involve universal health care and education, child allowances for all children without a means test, coverage of all elderly persons by the pension system, cash benefits for all children and persons with disabilities, universal and free-of-charge access to social care services, childcare and early childhood development services, etc.

The advantages of universal versus targeted programmes are usually supported by arguments of more comprehensive protection of the poor owing to the elimination of the exclusion error, the electorate's reluctance to agree to targeted entitlements only, the absence of stigma and disincentive to work, while, for some entitlements and social services, the presence of external effects is especially important (typically education, but some parts of health care as well (Gilbert, *Transformation of the Welfare State: The Silent Surrender of Public Responsibility*, 2002) (Mkandawire, 2005) (Barr, 2012). Finally, administrative costs are lower in the implementation of universal entitlements, as are costs to beneficiaries. Beyond ideological frameworks, the key objection to universalism is the high burden of expenditures, as well as the inefficiency of these programmes with respect to poverty reduction, given that substantial funds are spent on the non-poor to prevent the exclusion error and ensure the protection of the poorest.

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In the given context, it is essential to stress that the concept of universal entitlements should be distinguished from universal social protection, a recent concept promoted jointly by the World Bank and the ILO. After the appeal for universal primary education (a Millennium Development Goal in 2000) and universal health coverage (World Bank and World Health Organization in 2013), the ILO and World Bank's joint statement⁴⁷ of 2015 called for universal social protection across the life cycle. The initiative implies that anyone who needs social protection should have access to different cash and in-kind benefits, especially the poor and vulnerable, without prejudging programme design or presence/absence of targeting.

Owing to higher expenditures and the limitations imposed by the low GDP level, and in some countries also indebtedness, already high deficit levels and relatively high social sector expenditures in a situation of substantial tax burden, this option, on the whole, may only be considered as a possible long-term strategic choice.

From a research perspective, an important question is whether the implementation of certain elements of universal access in the Western Balkans region is justifiable in the immediate future. This primarily concerns e.g. the appropriateness of a shift to universal health care funded from the public budget, in view of the increasingly flexible labour market, widespread grey economy and other problems resulting in incomplete coverage (of the Roma population, employees of enterprises not complying with the requirement to pay contributions, or the elderly covered neither by pension insurance nor by social assistance programmes). Furthermore, research into the impact of disability on the living standard could provide reasons to possibly accept e.g. universal child allowance and/or free-of-charge social care services for children with the most severe disabilities. Some universal entitlements and services could also be granted to the population living in substandard Roma settlements. The issue of universal entitlements is raised also in the context of early childhood development, in view of the growing body of evidence of the importance of this factor for better education outcomes and for poverty reduction.

An essential prerequisite to decision-making about all measures involved in this option is an assessment of costs and the creation of budgetary space. Universal access can only be accepted if more funding for the social sector is provided as a result of GDP growth or if budgetary space is created by restructuring (reducing or ending certain entitlements) and raising efficiency.

47 http://www.ilo.org/global/topics/social-security/WCMS_378991/lang--en/index.htm

3. Social investment welfare state

The strategic choice to develop a social investment welfare state essentially implies prioritising certain investments and reforms on the grounds of their importance for human development and economic growth. The European Commission argues that such choice constitutes modernisation of the welfare state⁴⁸.

A social investment welfare state implies the focus on raising efficiency, as well as additional investment in education and health care, childcare and early childhood development, employment services, active labour market policies, and rehabilitation and training programmes.

For Western Balkan countries with remarkably low investments in education and/or health care and with highly unfavourable outcomes, such as Albania, the focus on social investment would mean that, in the future, the welfare state should focus chiefly on the development of these very segments of the social sector. Similar can be inferred from the distinctly unfavourable education outcomes in Kosovo and Macedonia, as well as the unfavourable health indicators, in particular the high infant mortality rate (Table 6). Somewhat paradoxically, as part of their population policies, a number of Western Balkan countries allocate relatively significant funds to encourage more births, while, at the same time, investing insufficient efforts in enhancing early childhood development programmes or antenatal and postnatal care to reduce the mortality of the children already born.

Prioritising education reforms and skills enhancement is, according to some researchers, the key condition for economic growth in the Western Balkans region (Arandarenko & Bartlett, 2012, p. 4). In the context of education, there are several distinct priorities and needs. Failure to recognise the importance of early childhood development and to distinguish between this function and the childcare function in most Western Balkan countries is certainly a theme of particular relevance to social investment⁴⁹.

Clearly, a social investment welfare state would also involve satisfying many competing needs under the conditions of severely constrained budgets. Therefore, a crucial question is what the priorities are in the "investment package" for each individ-

48 <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes>

49 There is insufficient understanding that these are two distinct functions, geared towards two different goals (education versus work-family reconciliation), and thus also towards different target groups (children from socially deprived backgrounds versus children of working parents, from more affluent families). The problem is also compounded by the fact that early childhood development and childcare are usually funded from limited local budgets, and there appears to be an insufficient awareness that only one of these two functions necessarily involves the relatively costly full-day care service each day.

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ual Western Balkan country, what the additional expenditures are and how to create budgetary space for additional investment. In view of the high unemployment, policies to boost economic activity are not a priority in the Western Balkans to the same extent as in countries with an insufficient labour force supply. Additionally, in the countries where traditional mixed households are still prevalent, the introduction and expansion of work-family reconciliation services are not a high priority in the short term.

In this context, it is also important to assess the extent to which the set of "investment" policies is adequate for the fight against poverty. Indeed, the choice of such approach may encourage countries to invest more in the social sector segments that do not necessarily target the poor (maternity leave, childcare, higher education, active labour market policies unavailable to specific vulnerable groups – traditional farmers, for example), and some researchers argue that the shift from the traditional redistributive welfare state to a social investment state at least in part accounts for the disappointing trends in (relative) poverty reduction (Cantillon, 2011, p. 15).

4. Preventive welfare state

The choice to develop a preventive welfare state would imply the focus on those measures and policies that prevent risks and alleviate the need for poverty reduction interventions. In historic terms, much more attention was devoted to coping with the risks that already occurred than to their prevention or mitigation (Holzmann, Sherburne-Benz, & Tesliuc, 2003, p. 9).

Certainly, much of prevention lies outside the strict purview of the welfare state, primarily in economic and employment policies. In some countries, especially important are measures aimed at disaster prevention (including drought and flood), accident prevention (e.g. traffic), as well as anti-discrimination policies, credit access measures for the poor and the like.

Within the domain of the welfare state itself, the preventive approach implies the primary focus on education and skills enhancement, labour market policies, public health policies, primary and preventive health care, preventive social work services, establishment and development of control mechanisms such as inspectorates to prevent occupational injury etc. Under this approach, another notable feature is a set of indirect measures referred to by some researchers as pre-distribution (as opposed to redistribution), which should facilitate a more even distribution of market income (Hall, 2015,

p. 257) (Hacker, 2011, p. 35) (Smeeding, 2004, p. 19). This set of measures includes setting a high minimum wage, strengthening social dialogue and trade unionism to raise wages, as well as imposing requirements on privately-owned companies to provide better and more generous pension and health care, childcare, training etc. to reduce the state and public sector share in the provision of social protection. Finally, in a broader sense, social insurance also plays an important role in preventing poverty in the event of occurrence of certain risks.

In the context of the Western Balkan countries, two issues warrant particular attention: the place and role of social, especially pension insurance, and pre-distribution policies.

Social insurance benefit schemes prevent income and living standard decline due to old age, disability, death of breadwinner, illness, occupational injury and unemployment. For most Western Balkan countries, the place and role of the traditionally set-up Bismarck-type social insurance, where entitlements are tied to contribution payment and formal labour market status, emerges as an acute issue. This is primarily due to the fact that social insurance fails to provide security and prevent old age poverty to the entire population, especially in view of the significant share of informal economy and high long-term unemployment. Under such conditions, it is very difficult to find an adequate solution for pension insurance systems in countries with pronounced ageing, large numbers of pensioners, and (relatively) high pension bill burden (Serbia, Croatia). Any attempt to redesign the pension system towards the introduction of mandatory private insurance (2nd pillar, according to the World Bank terminology) or reduction of the public pension insurance (1st pillar) inevitably faces substantial transition costs and/or increase in elderly poverty. From the aspect of funding, these issues are all the more serious in view of the tendencies to reduce the tax and contributions posing a burden on labour costs, while increasing the taxes not detrimental to economic growth (consumption and property taxes, environmental protection and improvement charges) (Mathé, Nicodème, & Ruà, 2015). The fact that part of the population is not covered by the pension system prompts the consideration of arrangements such as social pensions or expansion of social insurance to include those working in the informal sector⁵⁰.

The relevance of the "pre-distribution" option for the Western Balkan countries raises numerous dilemmas as well. Firstly, whether there is scope for raising the minimum wages, given the requirements of competitiveness, potentially adverse impact on em-

⁵⁰ For more information on expanding social insurance to include the informal sector, see the examples of Croatia, Austria and Sweden <https://www.seejobsgateway.net>

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ployment and, in particular, their already high ratios to the average wages in all of the countries except Montenegro (Kovtun, Meyer Cirkel, Murgasova, Smith, & Tambunlertchai, 2014, p. 15). Instead of raising their levels, it may be more worthwhile to consider to what extent the minimum wages are binding in reality and whether regulation or control mechanisms should be stipulated more precisely to ensure compliance (Aran-darenko, 2011, p. 39). Secondly, social dialogue and the importance of trade unions for setting adequate market-based wages necessitate an analysis of their efficiency, possibility of influencing wage levels, as well as possible impact on unemployment under the given scenario. Thirdly, detailed assessments of the feasibility of shifting costs to private-sector employers are also needed, given the requirements imposed by the drive to boost competitiveness. Finally, the fact that this segment of preventive measures only provides protection to those employed in the formal economy should not be overlooked.

5. Improving efficiency

Under the conditions of numerous needs and pressures driving expenditures up and the almost non-existent scope for significant tax increases, raising efficiency is an essential part of the response to the challenges faced by welfare states

Raising efficiency is not an alternative, but rather the key complementary strategy, independent of the options considered above. It is also a prerequisite for the pursuit of each of the choices discussed above, as it facilitates creating budgetary space for shifting the focus of the welfare state.

Raising technical efficiency means not only reducing (wasteful) spending, but also delivering improved outcomes from given inputs. In line with the "efficiency in product mix" requirement, raising efficiency can also mean changing the structure of expenditures within the welfare state as a whole (e.g. less for social transfers, more for education) or within each individual sector (less for higher education, more for primary education and early childhood development).

Efficiency is assessed against goals, both for the welfare state as a whole, and for individual sectors, measures and policies. Thus, for instance, if the primary goal of the welfare state is to reduce the risk of poverty, then efficiency is assessed by comparing the expenditures on social transfers and the relative poverty rates before and after transfers (European Commission, 2016, p. 7).

Measuring social sector efficiency is a major challenge owing to the fact that outcomes are measured with great difficulty, are affected by numerous other factors as well (economic development, employment, preferences and habits etc.), while inputs (expressed e.g. in terms of expenditures on individual social benefits) are often simultaneously geared towards achieving multiple goals. Individual measures and policies almost always have multiple goals. In view of these difficulties, proposals are voiced for the assessment of efficiency by benchmarking of key input, outcome and contextual factors (Social Protection Committee and the European Commission Services, 2015, p. 51)⁵¹.

Despite measurement difficulties, the quest for efficiency improvements remains a crucial issue for changes and reforms in the social sector, including in the Western Balkans. Most of the countries have implemented or are implementing numerous reforms to improve efficiency, albeit with widely varying effects, and the methods and mechanisms to achieve it are in focus.

In this context, it is essential that each country identify the segments of the social sector where inputs are (overly) high relative to outcomes; at the same time, depending on the strategic choices and primary goals, the question of the key sources of efficiency improvement arises (curbing and reducing expenditures or improving the outcomes achieved with the given expenditures, restructuring the welfare state as a whole and within each sector etc.). This is especially important assuming that GDP growth leads to a wider scope for higher investment in the social sector.

Owing to some similar characteristics that are, to an extent, shared by all Western Balkan welfare states, seeking common responses through research and peer review of the methods and mechanisms to improve efficiency emerges as an important goal. The list of possible themes includes numerous issues: decentralisation (what should be fully devolved to lower levels of government, and what must remain within the national mandate), change in the modality of funding education and health care service providers (whether the introduction of capitation grant to schools, capitation payment for primary care physicians or diagnosis-related groups for the secondary health care level are appropriate reforms), activation of cash benefit recipients (under what conditions, whether subsidies to employers can be implemented, experiences with engagement of beneficiaries in community service, additional benefit amounts to cover

51 In four social policy areas (pensions, unemployment, family/children and social exclusion/housing), the key indicators and the goals referred to by those indicators have been identified; following this, radar charts have been developed, facilitating insight into the gaps and differences among countries.

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commuting and childcare costs etc.), use of information technology (introduction of cash and in-kind benefits information systems and their linkage to other registers), fight against corruption (in what segments it is the most prevalent, what action is taken, what methods have yielded positive results), cross-sectoral linkage (development of protocols, joint funding, special cross-sectoral bodies), involvement of non-state service providers (in what sectors it contributes to raising efficiency, what are the prerequisites, public procurement issues), shifting costs to beneficiaries (co-payment levels in health and social care services, higher education funding), active labour market policies (which ones have proven to be successful, and which ones have not), reduction of the grey economy and better tax collection (by what means, by regulation, control mechanisms, changes in the tax structure), parametric changes, as well as structural reforms of the pension system (experiences and dilemmas concerning the 2nd pillar, solutions concerning accelerated pension benefits, disability assessment, farmers' pensions, etc.).

6. Other issues relevant to strategic choices and options

In deliberating on strategic choices and options, it is worth considering four more important themes and remarks.

Firstly, in order to formulate and embrace strategic choices, it is necessary to define priorities clearly. Prioritisation is important owing to not only financial constraints, but also inadequate administrative and research capacities essential for the preparation and implementation of changes. Issues linked with prioritisation certainly include data availability, formulation of evidence-based policies and strategic options and, in particular, the necessity of evaluation and monitoring. Much has been learned about the importance of all of these elements; some have been imposed as part of the European integration process, but are still rarely implemented in practice.

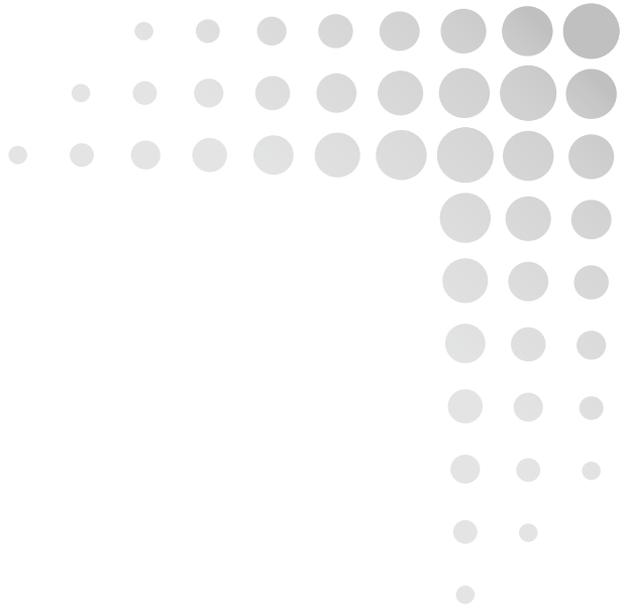
The second issue is whether efforts are to be chiefly focused on enhancing the existing solutions, introducing new measures and instruments, or changing the paradigm⁵². Depending on the capacities, as well as the state of affairs in some welfare state segments, it is probable that the focus on deep reform interventions involving a paradigm

52 In line with theories of first-, second- and third-order changes, i.e. fine-tuning, changing individual instruments, and fundamental policy change (Hall, 1993).

shift is not always the most efficient, despite their attractiveness. Under the conditions of limited funds and weak institutions, there is even the dilemma to what extent the simultaneous implementation of many complex measures is an acceptable choice, especially if they necessitate substantial investments (Šunderić, 2015, p. 133). It appears that too many "major" interventions are launched and efforts and resources invested in them, but are left unfinished or abandoned upon change of government. Such outcomes are linked with the insufficient evidence base for changes, as well as impetuous acceptance of the imposed paradigm shift, without professional consensus.

Thirdly, all of the countries are faced with the question of optimum level of decentralisation, as well as uneven development of social protection, which is insufficiently available in rural areas, substandard settlements, and often in specific regions. This issue is especially pronounced in countries where social care services for the elderly, children and persons with disabilities are entirely dependent on local budgets. The solutions available fail to provide support to birth families and decelerate the deinstitutionalisation process, which continues to be a major theme in the region. Taken in a broader sense, the concept of decentralisation also includes the dilemmas concerning the shift of service provision from the public to the private and non-governmental sectors.

Finally, peer review at the conceptual and technical levels, data sharing, providing a permanent forum for discussion, joint research, developing specific regional indicators, can help to partly overcome the problem of limited capacities, provide better insights through comparisons, avoid inadequate solutions and adopt good and innovative practices. It is crucial to launch regional initiatives, given the relatively low importance attached to the welfare state in the European integration process, posing a risk that these themes will be left out of decision-makers' focus.



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