

**Assessing the level of
harmonization of regional
welfare state policies with the
European Pillar of Social Rights**

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The European Pillar of Social Rights, Overview

The European Pillar of Social Rights is a compass for social progress of the countries and harmonization with the EU practise. The Pillar has been endorsed in September 2017, and has been jointly signed by the European Parliament, the Council and the Commission on 17 November 2017². The Pillar is composed of three dimensions: equal opportunities and access to the labour market; dynamic labour markets and fair working conditions; and public support / social protection and inclusion. All three aspects should provide information on the status of social development of the countries and a measure for harmonization and progress to the EU.

Table 1 summarizes the areas and proposed indicators by the European Pillar of Social Rights. The first dimension, equal opportunities and access to the labour market, is composed of five areas: education, skills and lifelong learning; gender equality in the labour market; inequality and upward mobility: living conditions and poverty and youth. The second dimension, dynamic labour markets and fair conditions, is defined by three areas: labour force structure; labour market dynamics and income-including employment related. The third dimension is composed of four areas: impact of public policies on reducing poverty; early childhood care; healthcare and digital access. The Pillar is supported by a scoreboard of indicators. The aim of the scoreboard of indicators is to standardize the monitoring of the progress among the countries, as well the progress achieved overtime for a country. Eurostat should serve as data provider, should collect data from different sources (usually data from the statistical offices), to provide valid comparisons between Member States and to identify trends over time. However, data compilation and publication is at early stage. Data for the Western Balkan countries, according to the developed indicators, are only partially available. On the other hand, there are available similar indicators for Western Balkans compiled by other sources (World Bank, ILO, OECD, state statistical offices, etc.), though the main challenge is that not always they have comparative data for the EU. In our methodological approach, we use the indicators proposed by the EU Social Pillar, while where the series is not available or data is fully or partially missing, we complement the analysis with additional

² https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/endorsing-european-pillar-social-rights_en

similar indicators from other sources. All indicators and data sources are described in Table 1.



Table 1: European Pillar of social rights, indicators and data sources

European Pillar of Social Rights Headline indicators (in bold) and secondary indicators	Similar indicators	Available data and sources
Equal opportunities and access to the labour market		
Education, skills and lifelong learning		
Early leavers from education and training (% of population 18-24)		EU, MK, MNE, KS, SRB, BiH - EUROSTAT
Adult participation in learning % of population 25-64		EU, MK, MNE - EUROSTAT
Underachievement in education (PISA)		ALB, MKD, KS - PISA, OECD
Gender equality in the labour market		
Gender employment gap Percentage points		EU, MK, MNE - EUROSTAT; SRB, ALB, BiH, KOS - ILO
Gender gap in part time employment		
Gender pay gap in unadjusted form		
Inequality and upward mobility		
Income inequality - quintile share ratio (S80/S20) Ratio		EU, MK, SRB - EUROSTAT; ALB, MNE, BiH, KOS- World Bank
Living conditions and poverty		
At-risk-of-poverty or social exclusion rate (AROPE) % of population		EU, MK, SRB - EUROSTAT
Youth		
Young people neither in employment nor in education and training (NEET) % of population 15-24		EU, MK, MNE - EUROSTAT; SRB, ALB, BiH - ILO; KOS - KOSSTAT
Dynamic labour markets and fair working conditions		
Labour force structure		
Employment rate % of population 20-64		EU, MK-EUROSTAT, SRB-SRBSTAT, ALB-ALBSTAT, MNE-MONSTAT, BiH-BIHSTAT, KOS-KOSSTAT
Unemployment rate % of labour force 15-74		EU-EUROSTAT; MK, SRB, ALB, MNE, BiH-ILO; KOS-KOSSTAT
Activity rate % of population 15-64		EU, MK-EUROSTAT, SRB-SRBSTAT, ALB-ALBSTAT, MNE-MONSTAT, BiH-BIHSTAT, KOS-KOSSTAT
Youth unemployment rate % of labour force 15-24		EU-EUROSTAT; MK, SRB, ALB, MNE, BiH-ILO; KOS-KOSSTAT

Labour market dynamics		
Activation measures - labour market policies participants Rate		EU - EUROSTAT
	ALMPs spending (% of GDP)	EU - EUROSTAT, MK, MNE, SRB, KOS, BiH - Operational plans PES
	Coverage rate of unemployed persons with ALMPs	EU - EUROSTAT, MK, MNE, SRB, KOS, BiH - Operational plans PES
Income, including employment-related		
Real adjusted gross disposable income of households Per capita in PPS (index = 2008)		EU - EUROSTAT
Compensation of employees per hour worked Euro		EU - EUROSTAT
	Gross monthly wages in euros	MK, SRB, MNE, BiH, ALB, KOS - WiiW, EU- OECD
Public support / Social protection and inclusion		
Impact of public policies on reducing poverty		
Impact of social transfers (other than pensions) on poverty reduction % reduction of AROP		EU, MK, SRB - EUROSTAT
General government expenditure by function: Social protection % of GDP	Social transfers and subsidies-general government (% of GDP)	EU - EUROSTAT; MK, ALB, BiH, KH, SRB- Economic Reform Programme 2018-2020
	General government expenditure by function: Health % of GDP	EU - EUROSTAT; MK, SRB, ALB, BiH, MNE - World Health Organization
	General government expenditure by function: Education % of GDP	EU - EUROSTAT; MK - MKSTAT; SRB, ALB - World Bank
Childcare		
Children aged less than 3 years in formal childcare % of under 3-years-olds		EU, MK, SRB - EUROSTAT
Healthcare		
Self-reported unmet need for medical care % of population 16+		EU, MK, SRB, MNE - EUROSTAT
	Out-of-pocket expenditure on healthcare % of total health expenditure	EU, MK, SRB, MNE, ALB, BiH - World Bank
Digital access		
Individuals' level of digital skills % of individuals aged 16-74		EU, MK, SRB, MNE - EUROSTAT
	Individuals using the internet (% of population)	EU, MK, SRB, MNE, ALB, BiH - World Bank



1. Equal opportunities and access to the labour market

The first dimension, equal opportunities and access to the labour market is measuring societal development from several perspectives, including: education, skills, lifelong learning, gender equality in the labour market, inequality, mobility and youth.

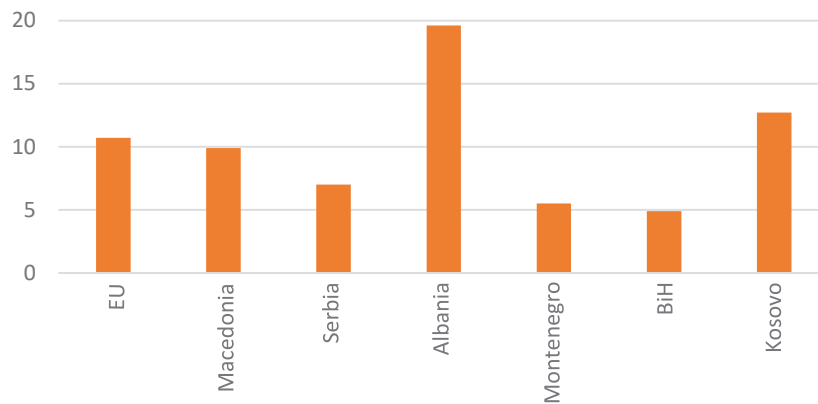
a) Education, skills and lifelong learning

Achievements in education in the Western Balkan countries remain below the EU average, classifying them as moderately prepared for EU accession. Figure 1 presents early leavers from education and training (ELET) in 2016, expressed as a share of population 18-24 who has completed at most lower secondary education and who are not involved in further education and trainings.

Reducing ELET rates is the primary objective of the Europe 2020 Strategy (European Commission/EACEA/Eurydice/Cedefop, 2014). There are negative consequences of early school leaving on the individual, society and economy, as the higher risk of unemployment, reduced earnings, higher risk of poverty and social exclusion (Belfield, 2008), and increased public expenditure on social programs (Nesse, 2010).

In 2016, there are large disparities across Western Balkan countries. The early school leaving rate was almost twice the EU in Albania (19.6%) and slightly higher than EU in Kosovo (12.7%). On the other hand, Macedonia, Serbia, Montenegro and Bosnia and Herzegovina recorded lower proportions of early leavers from education and training compared to EU. The EU benchmark is to reduce early leavers from education and training below 10% by 2020. As most of the countries in the region have rates below the EU 2020 headline target, each country has to set its own national target. In terms of policy measures, the European Training Foundation found that the VET is a successful option to overcome early school leaving in the Western Balkan countries, proved by the Montenegro's achievements in one of the lowest ELET rates in Europe (European Training Foundation, 2018).

Figure 1: Early leavers from education and training (% of population 18-24) in 2016

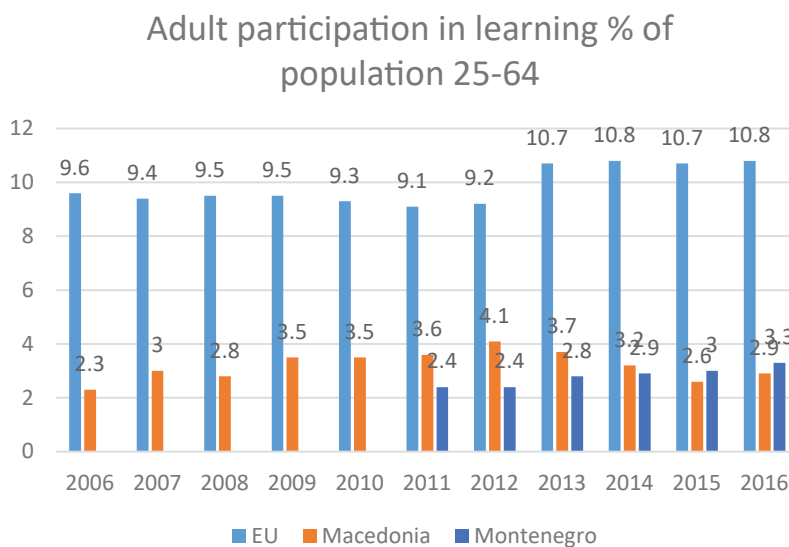


Source: Eurostat

The lifelong learning from the perspective of adult in education is not in the focus in the Western Balkan countries. The adult education is found to be treated with insufficient attention in Montenegro, while in Kosovo the role and function of Agency for VET and adult education is unclear. Figure 2 presents the adult participation in life-long learning for Macedonia, Montenegro and the EU. Only 2.9% of population aged 25-64 in Macedonia and 3.3% in Montenegro participates in life-long education, compared to 10.8% in the EU in 2016. Observed over time, there has been no significant progress in the past 10 years.



Figure 2: Lifelong learning



Source: Eurostat

Quality of education continues to be a challenge in the Western Balkan countries. According to the latest OECD Programme for International Student Assessment (PISA) results for 2015, WB countries with available data are ranked at the bottom of the list of 70 countries (Albania is 51st, Macedonia is 67th, Kosovo is 68th,) (OECD, 2017).

Apart of the quantity and quality of education, countries in the Western Balkan face large skills mismatches. Workers in the Western Balkans often lack skills that are needed in the modern integrated economy. The economic transition characterized with dubious privatization and enterprise restructuring, followed by hurdles with the technological adaptations and low quality of the educational systems are part of the identified reasons for the skills mismatches. Foreign direct investment inflows and labour reallocation from low- to more productive sectors required new skills and new working practices, which increased the demand for soft skills (communication, entrepreneurial attitude, team work and positive attitudes to work) (Bartlett and Arandarenko, 2012). Ad hoc skill needs surveys, conducted by different donor-funded programmes have already confirmed skill gaps in soft skills (Masson and Fetsi, 2007). Moreover, people have high access to tertiary education, schools are inadequate for equipping workers with generic skills, which creates a gap in the supply and demand for skills in the labour markets (World Bank report, 2017; EU Enlargement Policy, 2018; The World Bank report on economic integration issues, 2017). The provision of advanced skills at

the tertiary education level is hampered by quality issues and a lack of institutional efficiency. Over the years, Macedonia and Serbia faced large-scale brain drain of skilled workers and low levels of enrolment in post-secondary education, which impeded these two countries to rebuild qualified young workforce (EU Progress reports for the countries 2018, Economic Reform Programmes for the countries 2018).

The EU Progress reports (2018) and Economic Reform Programmes (2018) for all countries find that they need to reform their educational system for them to be properly aligned with the labour market needs. The main recommended reforms are in the VET programmes, curricula and teaching skills and equipment. Macedonia must upgrade higher-education and vocational curricula, so as to better align skills with labour market needs (EU Progress report for Macedonia, 2018; Economic Reform Programme for Macedonia, 2018).

Kosovo is yet to create pre-qualification schemes and vocational training programmes which has been noted since the EU Progress Report 2016. On the other hand, Albania is improving its qualification standards and framework curricula for most VET programmes as noted since EU Progress Report 2016, though according to the latest EU Progress Report (2018), some Albanian schools lack the teaching skills and equipment to put them into practice. Additionally, the entrepreneurial and soft skills are still underdeveloped.

Serbia adopted legislation that aims to address the issue of outdated curricula and obsolete teaching methods in pre-university education. The implementation of these documents is yet to commence. Moreover, the Law on national qualifications framework has been adopted including non-formal and informal learning (EU Progress report for Serbia, 2018; Economic Reform Programme for Serbia, 2018).

Montenegro achieved a good level in progress in the educational system (Economic Reform Programme, 2018). It established an Agency for the Control and Quality Assurance in the Higher Education and introduced financial incentives to promote excellence of teachers and students. Furthermore, efforts have been made to modernize the secondary vocational education so as to smooth the school to work transition, by amending the Law on vocational education. The vocational education introduced the dual education system which requires practical training with employers. Still, the EU Progress Report notes that the

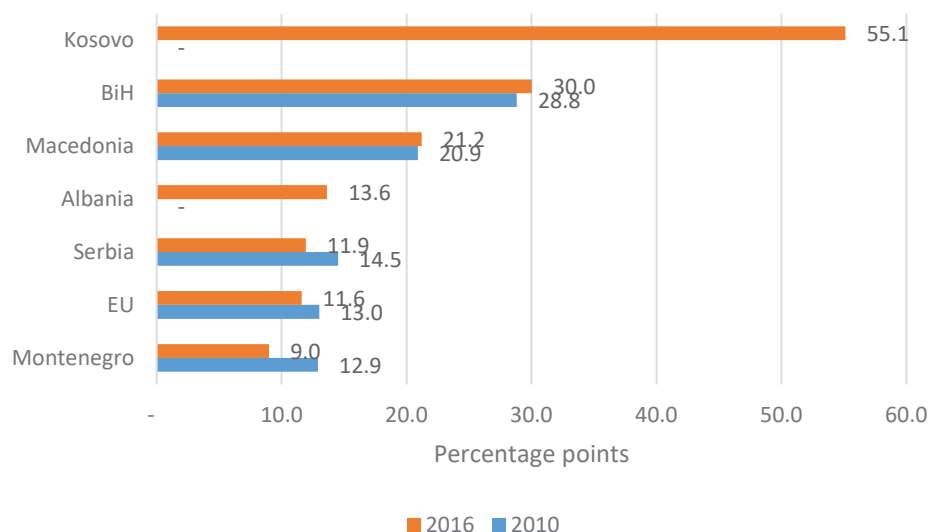
Montenegrin education system is undergoing a broad reform to improve its quality.

In Bosnia and Herzegovina, the issue is more complex compared to the other countries, mainly because the educational system is highly fragmented and lacks common standards for various levels of education. Moreover, the teaching curricula are outdated and not aligned with the need to address the skills mismatches, which creates vertical and horizontal skills mismatches in the country (EU Progress Report, 2018; Economic Reform Programme, 2018).

b) Gender equality and youth in the labour market

The gender equality has been highlighted in the EU's "Strategy for equality between women and men 2010–2015" and "2013 Social Investment Package", from the perspective of economic independence, decision making and women's position in the labour market. The gender employment and pay gap are the most exploited indicators in measuring gender economic equality. The gender employment gap measures the difference between employment rates of women and men aged 20-64. In 2016, the gender employment gap in EU was 11.6% and decreased slightly from 13% in 2010 (Figure 3). Economic losses due to the gender employment gap are estimated at 2.8% of EU's GDP (Eurofound, 2016). In the period between 2010 and 2016, the gender employment gap reduced in almost all Western Balkan countries, most notably in Montenegro and Serbia. Still, the gender employment gap is behind the EU's. It is the largest in Kosovo (55.1%) and Bosnia and Herzegovina (30%), followed by Macedonia (21.2%), while close to the EU figures in Albania (13.6%), and Serbia (11.9%). Montenegro is on the bottom of the list, and below the EU's figure, with 9% gender employment gap. The traditional gender roles in society, societal attitude and lack of awareness about women's rights are some of the reasons for weak position of females in the labour market.

Figure 3: Gender employment gap (percentage points)



Source: Eurostat and ILO

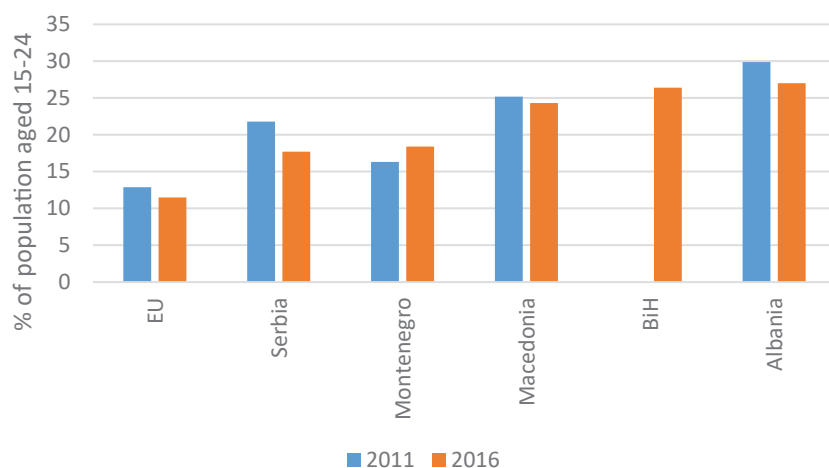
The gender pay gap in the Western Balkans is one of the most persistent labour market characteristics. In 2014, employed women earned less than employed men for 7.7% in Montenegro, 8.7% in Serbia and 9.9% in Macedonia (Unadjusted gender pay gap, Eurostat data). Although the unadjusted pay gap in these three countries is lower than the EU average (16.6% in 2014), the real adjusted pay gap - when personal labour market characteristics are taken into account - inflates. Arandarenko et al. (2013) found that it increases to 11% in Serbia and 17.3% in Macedonia when labour market characteristics are considered, while there is no change in Montenegro. The adjusted gap amplifies to 28.4% for low skilled workers in Macedonia (Petreski et.al. 2014). Petreski et.al. (2014) suggest that the gender wage gap in the Western Balkans is not necessarily explained by the labour market characterises, but rather by some unobservable characteristics, labour-market discrimination and/or female inactivity in the labour market.

Even though the Western Balkans adopted and amended – by and large - relevant legislation related to gender equality, significant limitations remain in practice (ERPS, 2018). The main challenges for improving gender equality include the change of mentality towards gender roles (United Kingdom’s Department for International Development, 2017), female poverty, insecurity in the labour

market, a growing share of unpaid care work, wide gender pay and pension gaps (Friedrich Ebert Stiftung, 2018).

Figure 4 presents the share of young people who are not in employment, education and training (NEET) among the total young population in EU and Western Balkan countries in 2011 and 2016. In 2016, 11.5% of young people in EU were not in employment, education or training and recorded slight decrease compared to 2011 (12.9%). A study of the cost of NEETs, estimated that in 2011 the annual loss of the Member States due to labour market disengagement among young people was 1.2 % of GDP (Eurofound, 2012). All Western Balkans countries recorded significantly higher NEET rate compared to EU. In Serbia and Montenegro it has been below 20%, while more than double the EU rate in the rest. However, except Montenegro, in all countries in the region, the NEET rate decreased steadily. With the exception of Bosnia and Herzegovina and Montenegro, the NEET rate is higher for females (especially in Kosovo) (Western Balkans labour market trends, 2018). For men, the primary reason for becoming NEETs is lack of jobs (Western Balkans labour market trends, 2018). Other reasons include the lack of interest in work if other source of income is available in the household (e.g. remittances), belonging to a minority within the country (The Aspen Institute, 2017), or having only primary-level of education (European Training Foundation, 2015).

Figure 4: Youth Not in Employment, Education or Training (NEET) rate (% of population aged 15-24)

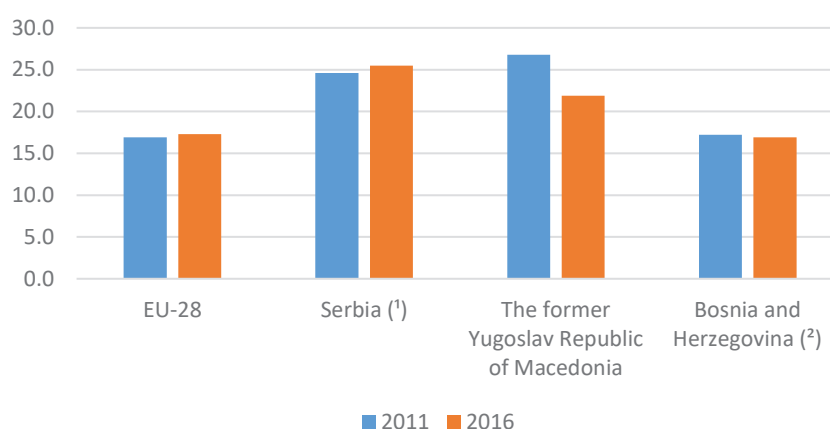


Source: Eurostat, WIIW

c) Inequality, living conditions and poverty

Poverty and inequality remain persistent problems for the Western Balkans. Despite the reduction of poverty in the region, it is still high. The 'at risk of poverty rates' after pensions and social transfers (Figure 5) indicate that the ones in Macedonia (21.9%) and Serbia (25.5%) were higher than in the EU-28 (17.3%) in 2016. High unemployment, long transition, inadequate social protection systems, low productivity are some of the explanatory determinants of the high poverty rates in the Western Balkans. Compared to 2011, the poverty rates dropped in Macedonia and Bosnia and Herzegovina by an estimated 4.9 and 0.3 percentage points, respectively. While it increased in Serbia, by 0.9 percentage points. Moreover, World Bank noted that during 2016-2017, around 117,000 people were lifted out of poverty in the region (World Bank, Western Balkans Regular Economic Report, 2018), mainly because of improved labour market conditions of higher job creation and labour earnings.

Figure 5: Proportion of the population at risk of poverty after transfers, 2011 and 2016 (%)

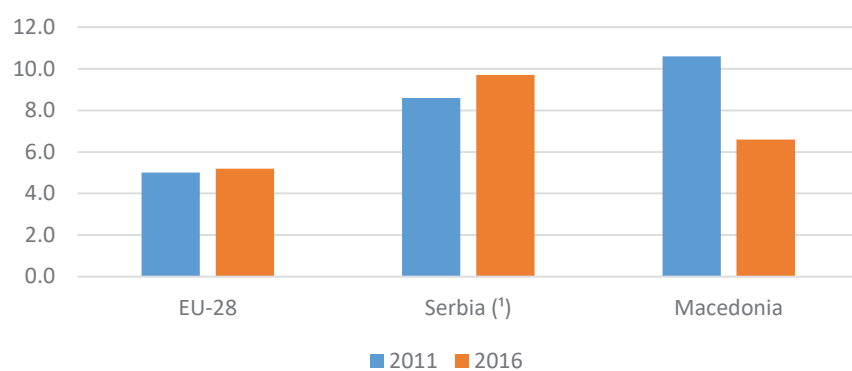


Source: Eurostat

The income inequality – quintile share ratio calculated as ratio of total income received by the highest 20% of the population and total income received by the lowest 20% of the population is high in Macedonia and Serbia. The top 20% of the

population earn almost 10 times in Serbia and almost 7 times in Macedonia more than the poorest 20%, compared to 4 times in EU-28. (Figure 6).

Figure 6: Income inequality – quintile share ratio (S80/S20), 2011 and 2016



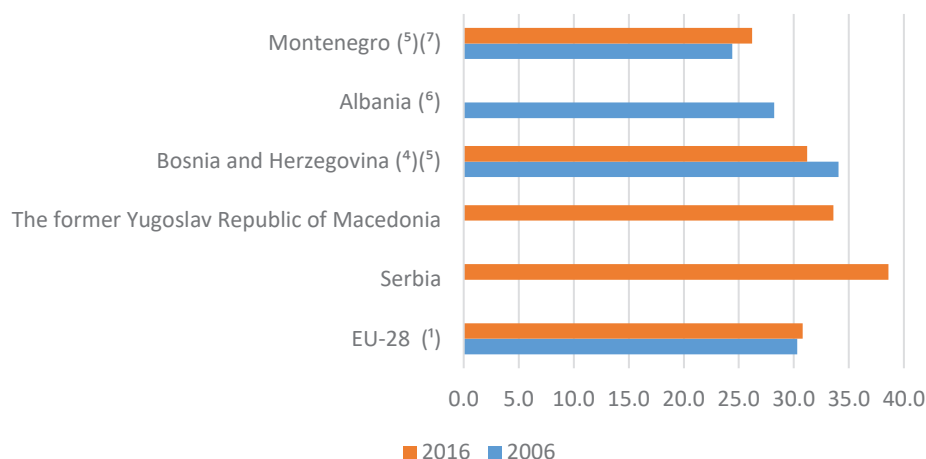
Source: Eurostat

(¹) 2013 instead of 2011.

Likewise, according to the Gini coefficient (Figure 6), Serbia (38.6%) and Macedonia (33.6%) faced highest income inequality among countries in the region in 2016. Bosnia and Herzegovina (31.2%) has comparable income inequality to EU-28 (30.8%), while income inequality in Montenegro (26.2%) is lowest in the region and below the one in EU-28.



Figure 4: Gini coefficient, 2006 and 2016



Source: Eurostat

(1) 2006: EU-27; estimate.

(4) 2007 instead of 2006. 2015 instead of 2016.

(5) Calculation based on consumption.

(6) 2008 instead of 2006. 2016: not available.

(7) 2013 instead of 2016.

2. Dynamic labour markets and fair working conditions

Dynamic labour market and fair working condition dimension is measuring progress and harmonization in the area of labour force structure, labour market dynamics including activation policies and employment-related income.

a) Labour market conditions

Table 2 presents the labour market conditions in the Western Balkan countries in the period 2006-2017. The labour markets of the WB countries face structural challenges reflected in high unemployment rate (from 13.9% in Albania to 30.5% in Kosovo in 2017), slow job creation, low participation rate (from 38.7% in Kosovo to 66.2% in Albania in 2016), gender imbalances and persistent and high youth unemployment rates (from 30% in Albania to 55.4% in BH in 2016).

Table 2: Labour market conditions in the Western Balkan countries, 2006-2017

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Employment rate % of population 20-64												
EU	68.9	69.8	70.3	69	68.6	68.6	68.4	68.4	69.2	70.1	71.1	
Macedonia	43.9	45	46.3	47.9	48.1	48.4	48.2	50.3	51.3	51.9	53.3	
Serbia			53.7	50.4	47.2	45.4	45.3	47.5	49.6	52	55.2	
Albania		56.6	53.9	53.5	53.5	58.7	55.9	49.9	50.5	52.9	55.9	
Montenegro		49.2	50.8	48.8	47.6	45.9	47	47.4	50.4	51.4	52	53.1
BH							30	30.3	30.2	31.9	32.2	33.9
Kosovo							25.6	28.4	26.9	25.2	28	29.8
Unemployment rate % of labour force 15-74												
EU	8.2	7.2	7	9	9.6	9.7	10.5	10.9	10.2	9.4	8.6	7.6
Macedonia	36	34.9	33.8	32.2	32	31.4	31	29	28	26.1	23.7	23
Serbia	20.9	18.1	13.6	16.1	19.2	23	24	22.2	19.2	17.9	15.3	14.1
Albania	16	13.5	13.1	13.8	14.2	14	13.4	15.6	17.5	17.1	15.2	13.9
Montenegro	24.4	19.4	17.2	19.1	19.7	19.7	19.7	19.5	18	17.5	17.7	16
BH	31.1	28.9	23.3	24	27.2	27.6	28.1	27.5	27.5	26.3	25.1	25.6
Kosovo							30.9	30	35.3	32.9	27.5	30.5
Activity rate % of population 15-64												
EU	70.1	70.4	70.7	70.8	71	71.1	71.7	72	72.3	72.6	73	
Macedonia	62.2	62.8	63.5	64	64.2	64.2	63.9	64.9	65.3	64.9	64.5	
Serbia			62.7	60.6	59	59.4	60.1	61.6	61.8	63.6	65.6	
Albania		65.4	62.1	62.1	62.3	68.5	64.9	59.6	61.5	64.2	66.2	
Montenegro		61	61.2	60.3	59.3	57.3	58.7	58.9	61.6	62.6	63.4	63.5
BH							42.4	41.8	42.1	44.1	43.1	42.6
Kosovo							36.9	40.5	41.6	37.6	38.7	42.8
Youth unemployment rate % of labour force 15-24												
EU	17.7	15.8	15.9	20.3	21.4	21.8	23.3	23.8	22.2	20.3	18.7	16.8
Macedonia	59.6	57.6	56.3	55.1	53.7	55.3	53.9	51.9	53.1	47.3	48.2	46.9
Serbia	47.4	43	34.5	39.6	45.6	50.5	50.6	48.8	46.7	42.6	34.4	32.8
Albania	30.1	26.9	26.4	27.5	29.2	28.8	27.7	30.5	39.4	40.1	32.7	30
Montenegro	48.4	38.8	34.6	38.4	41.4	36.2	41.1	41.5	35.5	39	36.3	33.1
BH	62.4	58.6	47.3	49.5	56	56.8	57.8	56.5	62.7	62.3	54.3	55.4
Kosovo						55.3	55.9		61	57.7	52.4	52.7

Source: Eurostat, ILO, World Bank, National statistics

Even though the labour markets of the Western Balkans faced structural problems, their functioning has improved in the past 10 years. Employment rates increased in all countries in the region for 1.5 p.p in Serbia, 2 p.p in Albania, 2.2 p.p in Bosnia and Herzegovina, 2.4 p.p in Kosovo, 2.8 p.p in Montenegro and 9.4 p.p. in Macedonia, in the period of 10 years. The unemployment fell significantly, by 2 p.p. in Kosovo and Albania, to 13 p.p. in Macedonia. In general, the progress was driven by improved economic activity in all countries. Furthermore, in Macedonia the progress reflects job creation by the foreign direct investments and government employment programs. In Bosnia and Herzegovina and Serbia, reduced informality and the active labour market measures were additional drivers.

The combination of economic growth and job creation contributed to an estimated decrease of 1 p.p. in the region's poverty rate (World Bank, 2017, 2018), meaning that about 124,000 people have been lifted out of poverty since 2016. However, the speed of job creation is slowing down, likely due to the high tax burdens and regulations which inhibit job creation especially in the low-wage and low-skill segment (World Bank, 2017a). Moreover, the high levels of non-labour income from pensions, social assistance, and remittances discourage people from participation on the labour market. On top, the social benefit systems might discourage people from seeking low-wage and part-time work, which could help the shift from inactivity, or from informal- to formal-sector jobs. Furthermore, high minimum wages might have detrimental distributional effects and may result job losses for young and older unskilled workers.

The youth unemployment remains the main challenge for the labour markets in Western Balkans. Although it has been declining in recent years, it remains stubbornly high (55.4% in Bosnia and Herzegovina, followed by Kosovo, 52.7%, Macedonia, 46.9%, 33,1% in Montenegro, 32,8% in Albania and 30% in Serbia), and is more than double compared to the EU (16.8% in 2017). The misalignment between education system outcomes and labour market needs (Kosovo Progress Report, 2018), persistently high unemployment, rigidities in labour market legislation and lack of incentives to work (Albania Progress Report, 2018), large-scale emigration of skilled workers and low levels of enrolment in post-secondary education (Macedonia Progress Report, 2018), are k for the high youth unemployment in the Western Balkan countries.

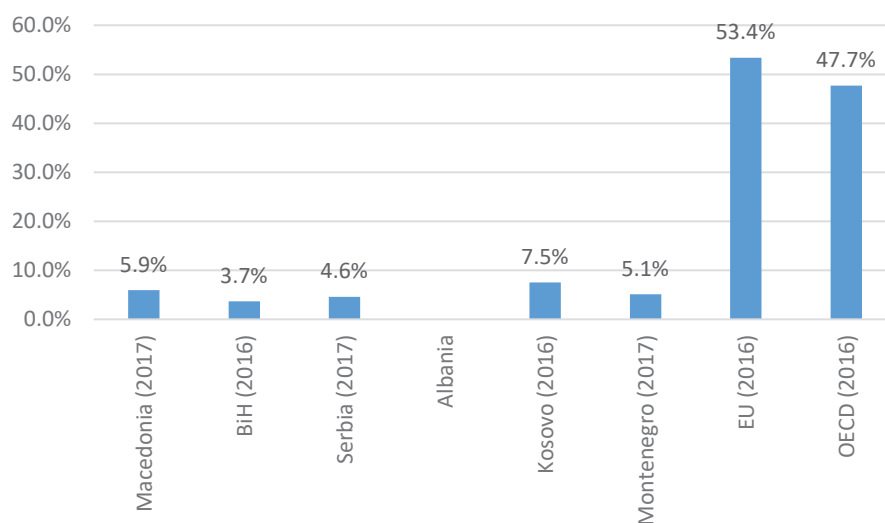
b) Active labour market policy measures

Active labour market policies (ALMPs) exist in all countries in the Western Balkans. Despite various labour market challenges, the ALMPs are insufficiently developed, hence with limited potential of solving and mitigation of the key labour market issues. Coverage, targeting and public employment policy efficiency are considered as the main challenges in the implementation process.

The ALMPs in the Western Balkan countries mainly target socially vulnerable persons, long term unemployed, youth, persons at risk, women, etc. Usually, all registered unemployed persons from targeted groups have the right to apply and participate in ALMPs. Still, an important drawback remains the inexistent targeting of specific subgroup (Numanovic et al. 2016). Additionally, most of the measures are at the national level, and not designed to take into account local circumstances. However, some progress was made in the targeting process. In Macedonia, for example, ALMPs were introduced in 2007 without specific target groups, though in 2015 youth (15-29) became the main target group with at least 30% participation in each measure (Petreski and Tumanoska, 2016). Kosovo adopted a sector strategy 2018-2022 for enhancing its employment policy and developed action plan for tackling youth unemployment. The country improved the public employment services by improving the matching of employers with employees, However, Kosovo still needs to reform its ALMPs since the access of youth and women is still too limited in scope to have a significant impact on employment (EU Progress Report for Kosovo, 2016).

Besides the target groups, the coverage of unemployed persons with the ALMPs is a relevant indicator. Figure 5 presents the coverage ratio of unemployed persons with ALMPs in the Western Balkans, compared to the EU and the OECD. In all countries, ALMPs remain with very limited coverage of unemployed persons. Only 3.7% of total unemployed persons in BH, around 5% in Serbia, Macedonia and Montenegro and 7.5% in Kosovo, have been covered, compared to the EU and OECD countries where each one of two unemployed persons has been covered with ALMPs.

Figure 5: Coverage ratio of unemployed with ALMPs in selected Western Balkan countries compared to the EU³ and OECD⁴



Source: Authors' calculation based on the countries Operational plans for active labour market measures, national statistics, ILO data and Eurostat data

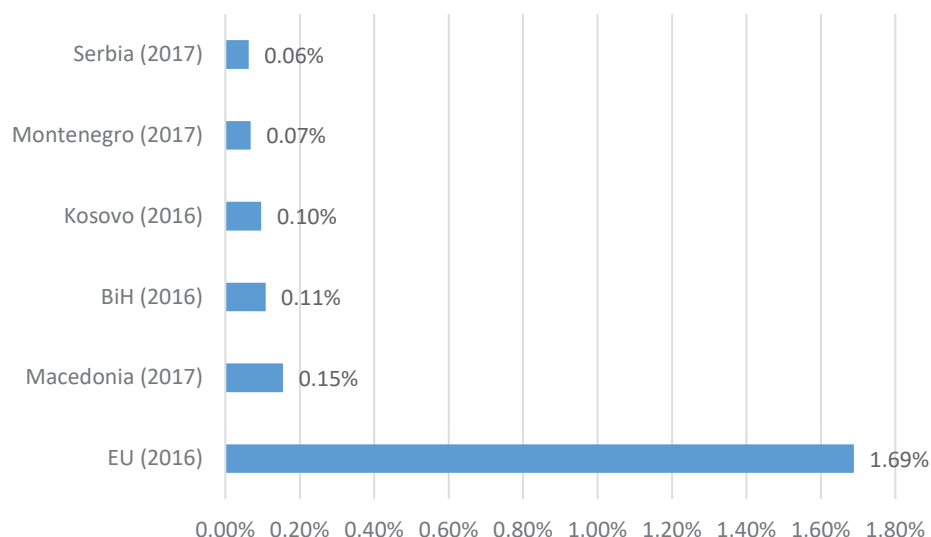
The low coverage could be explained with the limited resources for ALMPs and the low institutional capacities. Public expenditures on ALMPs in the Western Balkans remain significantly below the EU average (Figure 6).



³ EU without UK, Greece, France, Italy, Spain and Romania for which data were not available.

⁴ Data available for only 19 of 35 countries

Figure 6: Public expenditure on ALMPs in the Western Balkans (% of GDP)



Source: Authors' calculation based on country-level official statistics and operational plans on ALMPs

In almost all countries' reports for 2018, a recommendation was provided to increase financial resources for ALMPs as a solution for their low coverage. Macedonia increased resources for 2018, hence coverage increased from 6,000 to 16,000. The Economic Reform Programme for Serbia (2018) claimed that the active labor market policies continue to have a very low coverage, hence Serbia needs to complement this by a significant budget increase for active labor market policies in order to support access to employment for the large pool of unemployed, also with regard to future demographic constraints on the size of the workforce.

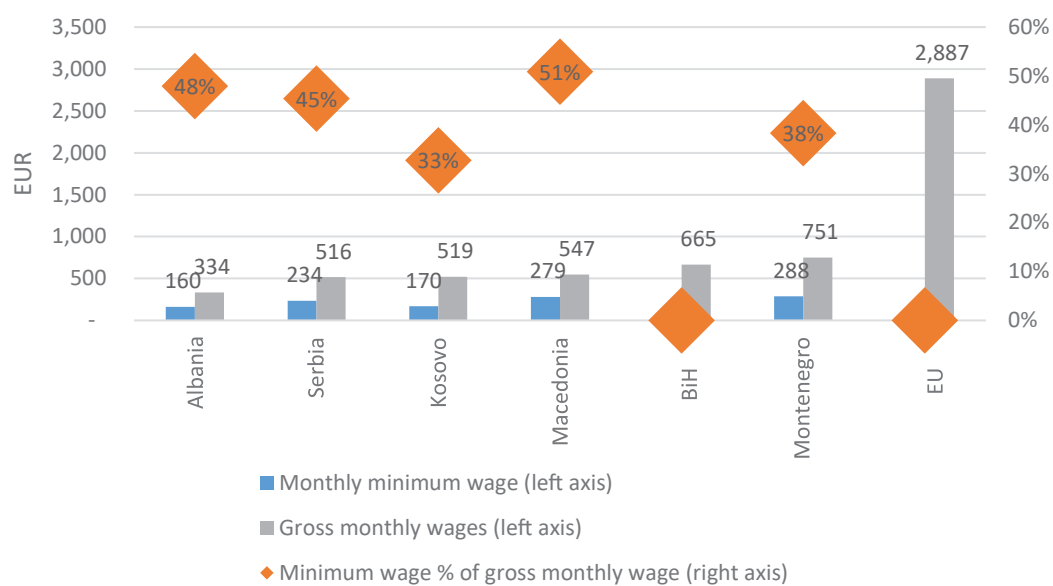
c) Income, including employment-related

Wages in the Western Balkans lag far behind the EU average. Figure 7 presents the average gross and minimum monthly wages in EUR in 2016⁵ and the share of the minimum wage in the average gross wages in the region, compared to the EU. The gross monthly wages were in the span from 334 EUR to 751 EUR. The highest average wage was recorded in Montenegro, followed by Bosnia and Herzegovina, Macedonia and Serbia. Albania and Kosovo are in the bottom. The figure shows that wages in all countries have been significantly lower than the EU average. The lagging behind is a result of the level of productivity in the economy, the slack

⁵ The last available data for gross minimum wage is 2016 except for Macedonia where 2017 is used, due to increased minimum wage in September 2017.

labour markets, as well as of their specific characteristics like large informality, undeclared workers or those paid at the minimum wage. In Albania, 37% of employees have been declared as paid at the minimum wage in 2017 (EU Progress Report for Albania, 2018). Hence, all countries in the region need to develop strategic approach to tackle the informal economy and undeclared work. Albania has already amended the labour code that was noted as poor by the EU Progress Report.

Figure 7: Gross minimum and average monthly wages in 2016 in the Western Balkan countries and EU⁶



Source: WiiW database, authors' calculation based on OECD data

While the average wage is an indicator of the living standard and the level of development of a country, the minimum wage is an important tool for social protection of workers. The main objective of the minimum wage is to protect workers who occupy the lowest position in wage distribution (ILO, 2008). Through protective function, the minimum wage will improve the survival and living conditions for the most vulnerable workers in the labour market (Medeiros, 2005). The gross monthly minimum wage in the Western Balkans is in the span from 160 EUR (in Albania) to 288 EUR (in Montenegro). The Economic Reform Programme for Kosovo (2018) suggests that the recently adopted increase of the minimum wage from EUR 170 to EUR 250 might have negative effects on job creation, especially for youth and low-skilled workers. In 2017, the minimum wage in

⁶ without Bulgaria, Croatia, Cyprus, Malta and Romania

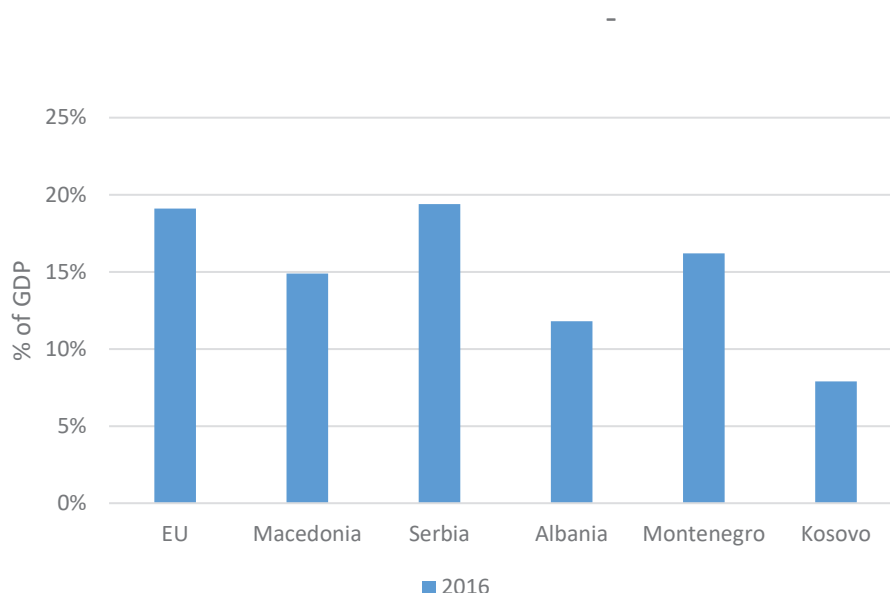
Macedonia has been also increased and the first results on wages growth are emerging, though the long-term effects are yet to be measured.

On the other hand, the literature and public debate point out to several aspects against the minimum wage increases, mainly the impact on productivity, efficiency and employment (Barbosa de Melo et al. 2012). Hence, setting the optimal minimum wage level is a challenge for policymakers, so as to avoid negative effects on unemployment while also to maximize the positive effects on the living standard. The so-called Keitz Index measured the minimum wage by its relative value, as a share in the national medium or average wage (Schulten, 2012). Finance Think's (2016) analysis found that an increase of the minimum wage to 50.9% of the average wage improves living standard by not affecting the unemployment rate, while the one above this threshold may increase unemployment. Considering the average wages, the highest relative minimum wage can be found in Macedonia (51%) followed by Albania (48%), Serbia (45%), Montenegro (38%) and Kosovo (33%).

3. Public support / Social protection and inclusion

The public support pillar includes access to health, social protection benefits and high quality life services, including childcare, healthcare and long-term care, which are essential to ensure dignified living and protection against life's risks. This enables citizens to participate fully in employment and, more generally, in society. The World Bank reports (2017, 2017a) noted that the Western Balkans must create social protection systems that encourage job creation and offer incentives to raise labour force participation by all population groups. Currently, the social protection systems tend to encourage early retirement and discourage beneficiaries from seeking to work. The equitable access to education, health care, and public services are critical in order for the poor and vulnerable citizens to improve their livelihoods. Figure 8 presents total social transfers and benefits as share of GDP in the Western Balkan countries and the EU.

Figure 8: Social transfers and subsidies - general government (% of GDP) in the Western Balkans and the EU in 2016

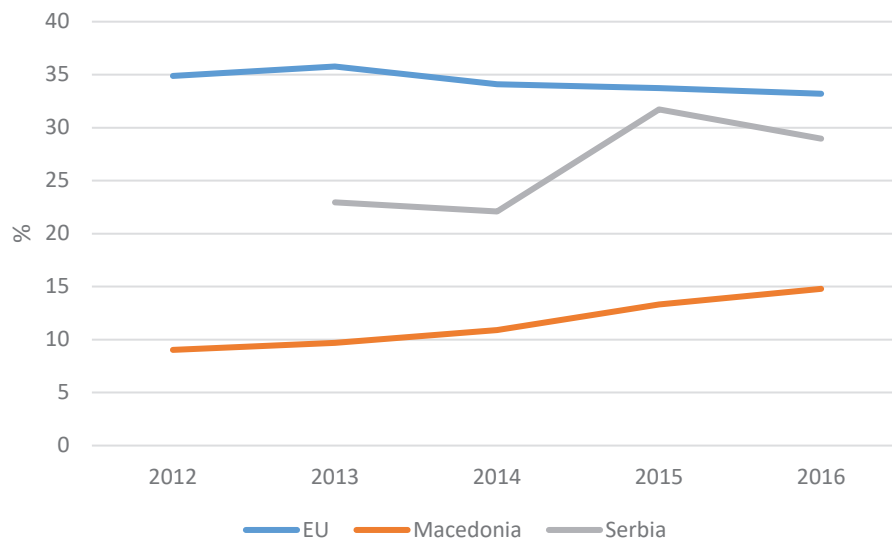


Source: *Economic Reform Programme 2018-2020 for the countries, Eurostat*

Social transfers include direct transfers, in cash or in kind, by social protection schemes to households and individuals (ESSPROS Manual, 2008). Social transfers cover: old-age (retirement) and survivors' (widows' and widowers') pensions, unemployment benefits, family-related benefits, sickness and invalidity benefits, education-related benefits, housing allowances, social assistance and other similar benefits. Total public expenditures on social benefits in the Western Balkans are comparable to those in the EU and were in the span from 7.9% of GDP (in Kosovo) to 19.4% of GDP (in Serbia). In the most of the countries, social transfers increased.

Figure 9 presents the impact of social transfers without pensions on poverty reduction in Macedonia and Serbia compared to the EU. The impact on poverty reduction is below the EU average; hence, it raises concerns related to effectiveness of public money spending on social protection measures. This is in line with the World Bank reports (2017, 2017a), where the overall social assistance spending and poverty-targeted assistance is estimated with relatively limited coverage of the poor, and improvements in targeting are needed to make this spending more effective.

Figure 9: Impact of social transfers (other than pensions) on poverty reduction % reduction of AROP

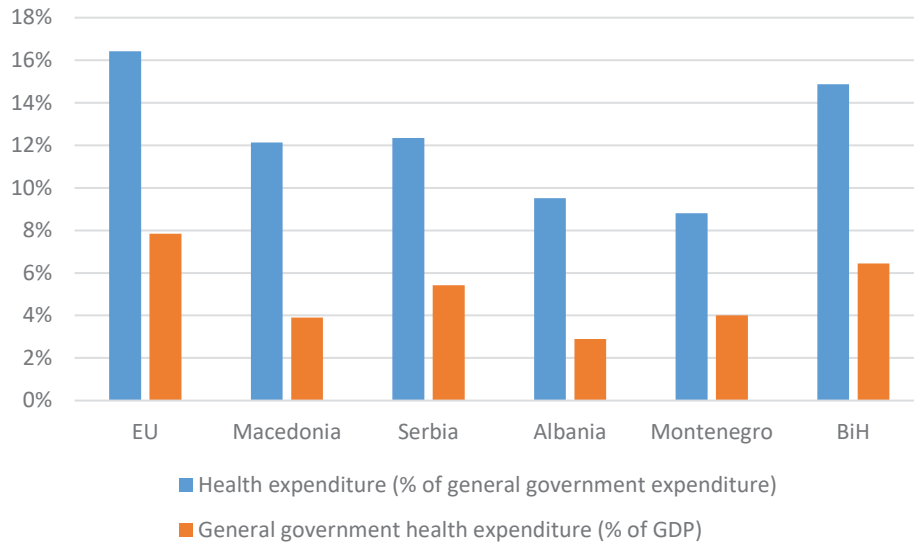


Source: Eurostat

Figure 10 describes government health expenditures as a share of total expenditures and of GDP in the Western Balkans for 2015, compared to the EU. In general, it is lower but still comparable to the EU average. Albania, for instance, made significant progress in ensuring healthcare coverage for all, though further efforts are needed to strengthen the governance of public hospitals and healthcare quality (EU Progress Report for Albania, 2016, 2018).



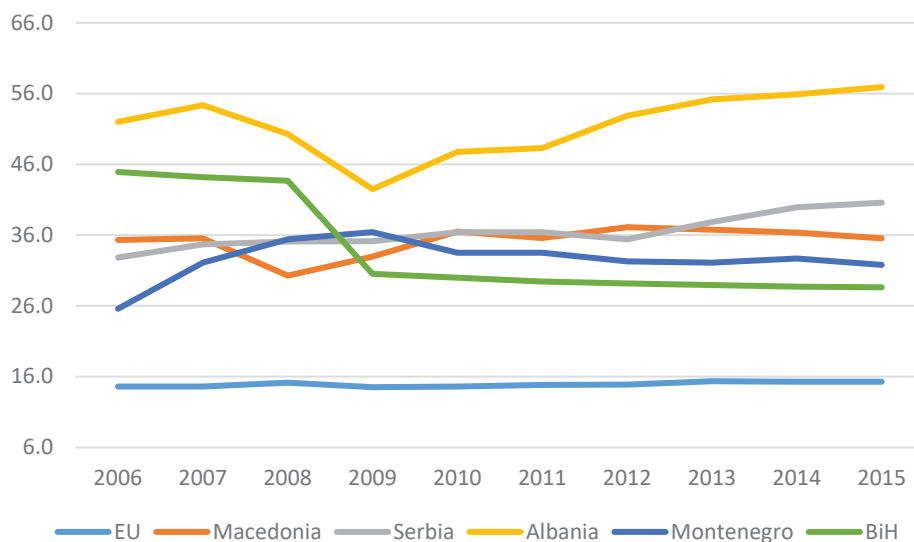
Figure 10: Government health expenditures in the Western Balkans in 2015



Source: World Bank

While government health expenditures of the analysed countries are comparable to the EU average, the private out of pocket expenditures are significantly above the EU average (Figure 11). Albania tops the list by 57%, followed by Serbia (41%). In both countries, these expenditures recorded an increasing trend. In Macedonia (36%) and Montenegro (32%), the out of pocket healthcare expenditures have been stable over the years.

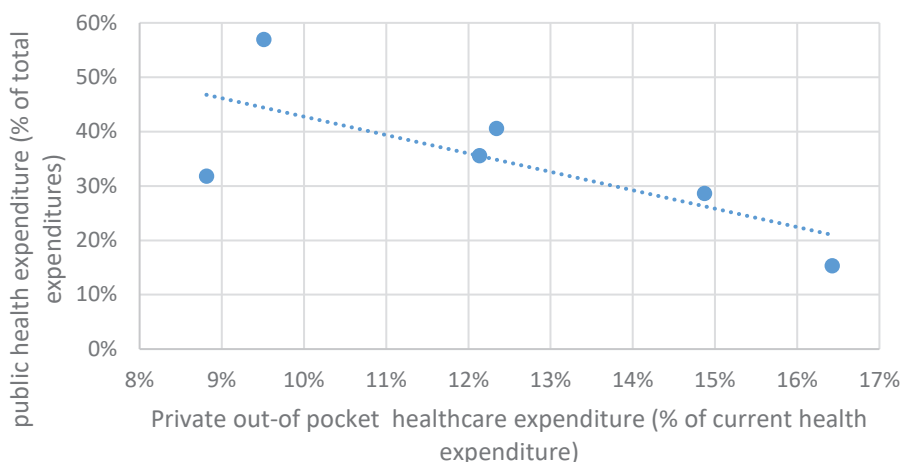
Figure 11: Trends in private out-of-pocket expenditure on healthcare in Western Balkan countries and EU (% of current health expenditures)



Source: World Bank

Figure 12, however, suggests that public and private spending on healthcare are inversely related. This may suggest that the inefficiency of the public healthcare system is replaced with private spending on healthcare services in the Western Balkans.

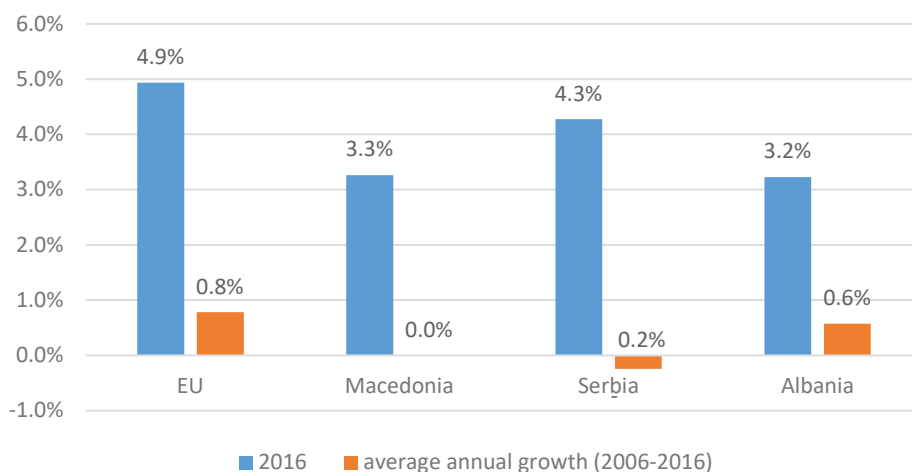
Figure 12: Public and private healthcare expenditures in the Western Balkans and the EU in 2015



Source: World Bank

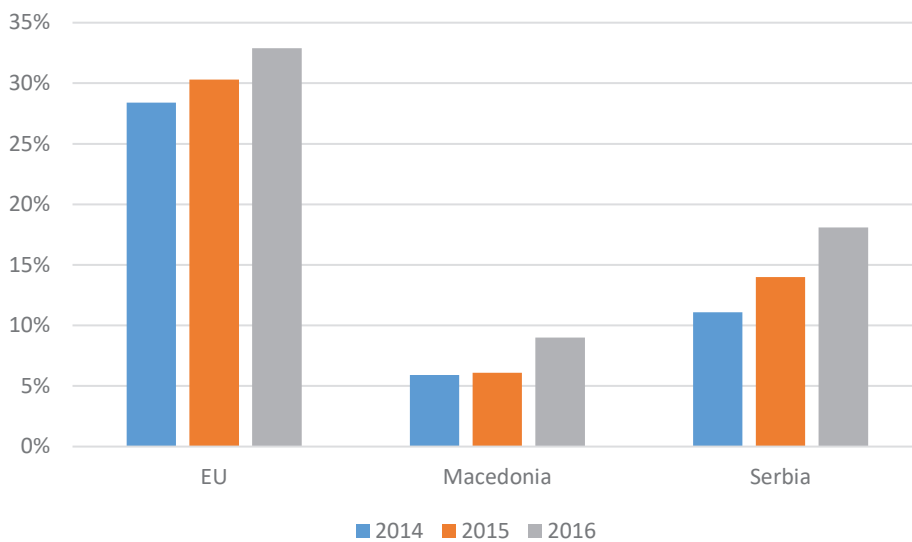
Public spending on education is important for equitable access to education services, in order for the poor and vulnerable citizens to improve their livelihoods. Public expenditures on education in the Western Balkans remain below the EU average (Figure 13). Only Albania increased these expenditures in the past decade. On the other hand, although enrolment of children in pre-school education has progress in some of the Western Balkan countries, it remains critical (Figure 14). Only, 9% of children aged less than 3 in Macedonia enrolled in formal childcare, compared to 18% in Serbia and 32% in EU.

Figure 13: Public expenditures on education(% of GINI) in Western Balkan countries and EU in 2016



Source: World Bank

Figure 14: Children aged less than 3 years in formal childcare



Source: World Bank

Conclusion and Recommendations

The European Pillar of Social Rights is a compass for social progress of the countries and harmonization with the EU practise. The Pillar is composed of three dimensions: equal opportunities and access to the labour market; dynamic labour markets and fair working conditions; and public support / social protection and inclusion. In order to provide quantitative comparison in the progress, the Pillar is supported by a scoreboard of indicators. The main advantages of the scoreboard of indicators are:

- Standardized monitoring of the progress among the countries;
- Opportunity to measure progress achieved overtime for a country, on comparable manner;
- The results of the indicators could promote synergies in the interrelated policy area;

The Eurostat should serve as data provider, should collect data from different sources (usually data from the statistical offices), to provide valid comparisons between Member States and to identify trends over time. However, there are several challenges:

- Data compilation and publication is at early stage;
- Data for the Western Balkan countries, according to the developed indicators, are only partially available. Indicators related to the labour market are the most accessible, compared to data on education and health.
- There are available similar indicators for Western Balkans compiled by other sources (World Bank, ILO, OECD, state statistical offices, etc.), though the main challenge is that not always they have comparative data for the EU.

Hence, the lack of multiannual data will cause insufficient information to measure the progress and the trend in the Western Balkan countries. Additionally, comparison among countries with data collected from different sources could be affected from different methodologies and to increase the risk of biased conclusions. On the medium term, the key issue is related to non-implementation of the principles measured by the indicators.

At this stage of European Pillar Rights Development and indicators scoreboard for the Western Balkan countries the main recommendations are in direction related to the data collection and coordination:

- The open coordination process with Western Balkan countries and EU related to the ERSP implementation should be intensified;
- To be revised the relevance of indicators with social policies in the Western Balkan countries in order to avoid missing dimensions;
- The set of indicators to be expand for additional indicators that will reflect the situation and potential social challenges of the Western Balkans;
- The Western Balkan countries to collect and publish social pillar indicators, according to the required methodology on the regular and continuous bases.

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Annex 1: Data on Headline indicators from European Pillar of Social Rights for 2016

European Pillar of Social Rights	EU	Macedonia	Serbia	Albania	Montenegro	BiH	Kosovo
Headline indicators (in bold) and secondary indicators	2016	2016	2016	2016	2016	2016	2016
Equal opportunities and access to the labour market							
Education, skills and lifelong learning							
Early leavers from education and training (% of population 18-24)	10.7	9.9	7.0	19.6	5.5	4.9	12.7
Adult participation in learning % of population 25-64	10.8	2.9			3.3		
Underachievement in education (PISA)- Ranking in 2017		67.0		51.0			68.0
Gender equality in the labour market							
Gender employment gap Percentage points	11.6	21.2	11.9		9.0	30.0	55.1
Inequality and upward mobility							
Income inequality - quintile share ratio (S80/S20) Ratio	5.2	6.6	9.7				
Living conditions and poverty							
At-risk-of-poverty or social exclusion rate (AROPE) % of population	17.3	21.9	25.5			16.9 (¹)	
Youth							
Young people neither in employment nor in education and training (NEET) % of population 15-24	11.5	24.3	17.7	27	18.4	26.4	
Dynamic labour markets and fair working conditions							
Labour force structure							
Employment rate % of population 20-64	71.1	53.3	55.2	55.9	52.0	32.2	28.0
Unemployment rate % of labour force 15-74	8.6	23.7	15.3	15.2	17.7	25.1	27.5

Activity rate % of population 15-64	73.0	64.5	65.6	66.2	63.4	43.1	38.7
Youth unemployment rate % of labour force 15-24	18.7	48.2	34.4	32.7	36.3	54.3	52.4
Labour market dynamics							
Coverage rate of total labour force with ALMPs (%)	53.4	5.9⁽³⁾	4.6⁽³⁾		5.1⁽³⁾	3.7	7.5
Public expenditure in ALMPs spending (% of GDP)	1.69	0.15 ⁽³⁾	0.06 ⁽³⁾		0.07 ⁽³⁾	0.11	0.10
Income, including employment-related							
Gross monthly minimum wage in EUR		279	234	160	288		170
Gross monthly wages in EUR	2,887	547	516	334	751	665	519
Public support / Social protection and inclusion							
Impact of public policies on reducing poverty							
Impact of social transfers (other than pensions) on poverty reduction	33.2	14.8	29.0				
% reduction of AROP							
Social transfers and subsidies- general government (% of GDP)	19.10	14.90	19.40	11.80	16.20	7.90	40.58
Education expenditure (% of GNI)	4.94	3.26	4.27	3.23			
Childcare							
Children aged less than 3 years in formal childcare % of under 3-years-olds	32.90	9.00	18.10				
Healthcare							
Health expenditure (% of general government expenditure) in 2015	16.42	12.14	12.34	9.51	8.81	14.87	
General government health expenditure (% of GDP) in 2015	7.84	3.90	5.43	2.89	4.01	6.44	
Out-of-pocket expenditure on healthcare % of total health expenditure in 2015	15.30	35.57	40.59	56.93	31.82	28.64	

(1) 2015 instead of 2016

(2) 2014 instead of 2016

(3) 2017 instead of 2016

Policy study No. 18

Assessing the level of harmonization of regional welfare state policies with the European Pillar of Social Rights