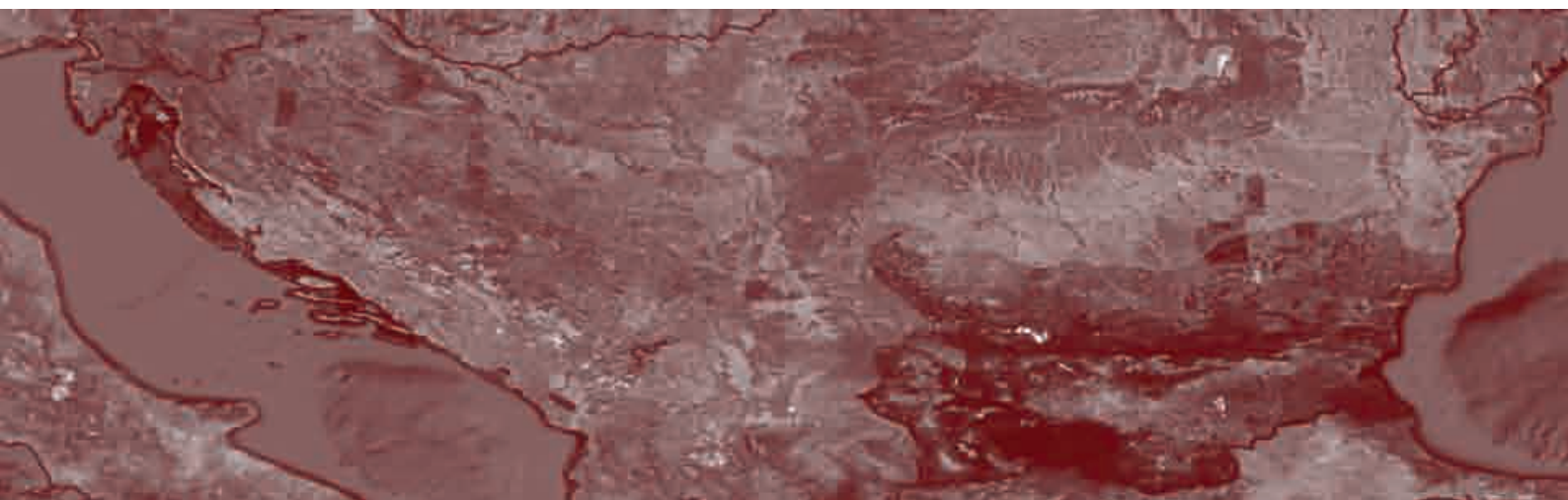


**South-East Europe**  
Regional Studies

# **Social Inclusion in South-East Europe**

National and Regional Policy Priorities for a Social Europe

Alfred Pfaller, Marc Meinardus (eds.)



**FRIEDRICH  
EBERT  
STIFTUNG**

**Published by:**



Friedrich Ebert Foundation  
Office Bulgaria  
P.O. Box 958  
97, Knjaz Boris I Street  
1000 Sofia, Bulgaria

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**Cover Design and Layout:** Vladimir Vatkov

**Cover Photographs:** BTA

**Printed by:** Grafimax 02 LTD

The views expressed in this publication are not necessarily those of the Friedrich Ebert Foundation or of the organization for which the authors work.

All texts are available online at [www.fes.bg](http://www.fes.bg)

Printed in Sofia, Bulgaria September 2010

**ISBN:** 978-954-92601-3-7

# **Social Inclusion in South-East Europe**

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Priorities for a Social Europe



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## Introduction

With the end of socialism, South-East European societies experienced a most dramatic increase in poverty and socio-economic inequality. Slovenia was the only country that escaped this generalized societal trauma. In the other countries that emerged out of the former Yugoslavia, the secession wars with their damaging effects on regular production and trade added to the impoverishment of large parts of the population (while enriching a few). Some might have hoped that the transition from the generalized inefficiency of bureaucratic socialism to Western-style capitalist market economies would bring Western-style mass prosperity to South-Eastern Europe, but the actual experience of social polarization followed a compelling logic. It is readily explained by the disarticulation of the political and economic system that had ensured social inclusion before the transition.

It is much less clear how social inclusion can be re-established in economies that have productive employment only for a reduced part of the country's work force and in states that no longer are able to appropriate and redistribute much of the national product. On the other hand, the protracted existence of large-scale social exclusion is a blatant offense to the ideal of a "good" society and of a democratic state that is at the service of all its citizens. It is entirely out of tune with the "European Social Model" and with the region's European aspirations. Moreover, it threatens to erode the legitimacy of the capitalist market economy and – especially important in the post-Yugoslavian countries – it can reinforce destabilizing identity politics. In fact, the quest for social inclusion defines one of the key challenges of the post-communist countries of South-Eastern Europe.

It is before this background that the Friedrich Ebert Foundation in 2007 launched a project "Towards Social Inclusion in South-

Eastern Europe", results (not the results) of which are presented in this volume. The project was conceived of as a means to direct public debate in the various countries towards the challenge of social exclusion and to policy options of responding to it. The purpose of the project was not to devise a blueprint for an integrated policy of social inclusion in South-Eastern Europe. Nevertheless, the blueprint notion was not entirely absent, as can be seen in the "Basic Policy Paper" included in the annex to this volume, which presents propositions for just that: a strategy to overcome social exclusion under the economic constraints that are expected to prevail throughout most of the region for many years to come.

These propositions are derived from a detached analysis of (a) the economic dynamics of social exclusion in South-Eastern Europe and (b) the capacity of the region's post-communist governments. The propositions are detached as well from the public debate on inclusion policy in the countries themselves. In a sense, they can be considered a call: "This is the way you should approach the issue and the challenge of social exclusion!"

The call elicited an echo throughout the region. Scholars of social sciences and economics, some of them actively involved in the debate and design of policy in their countries, have related the categories and propositions of the "Basic Policy Paper" to their domestic social inclusion discourse.

Three full-scale country studies were elaborated in Romania, Macedonia and Bulgaria, respectively in the course of 2008 – 2009. They analyze the state and perspectives of the relevant policy areas, such as employment, education, health care, pensions etc. in their respective countries. The results of these studies were widely discussed, communicated and distributed on national level. This is part of what the project wanted to achieve: an informed discussion of the challenge of social exclusion

and of the options to respond to it. The three country studies form Part 1 of this publication.

The final highlight of the project cycle was the regional conference “Social Inclusion – National and Regional Policy Priorities for a Social Europe”, held 19–20 October 2009 in Sofia, Bulgaria. It brought together 40 experts, academics and politicians from seven countries of the region as well as from the EU. In addition to the country studies, three more analyses from a regional perspective were presented, plus a synoptic view from the European perspective. The conference was opened by the Bulgarian Minister of Labour and Social Policy, Totyu Mladenov, whose speech is also included in the “Conference Contributions” that form Part 2 of the publication. His outline of the present policy priorities of social inclusion in Bulgaria exemplifies the success of the project. It shows to what extent the conclusions and recommendation of the Bulgarian country paper have indeed been incorporated into official policy, following intensive consultations and workshops that were part of the project in Bulgaria.

Of course, an informed discussion alone does not move things, does not change reality. Politics responds to political pressure, in the sense of doing things, of solving problems, and in the sense of avoiding solutions that are vetoed by powerful interests or that are expected to create more problems than political rewards. In a way, the persistence of large-scale social exclusion in the region reflects the prevailing

matrix of political pressure and political power. It reflects the fact that the political systems have accommodated exclusion – for the time being. Determined efforts to eliminate exclusion as much as possible under the given economic conditions will materialize to the extent accommodation ceases to be a viable political option. This is first of all a matter of the pressure exerted by those who claim inclusion for themselves. But it is also a matter of the legitimacy accorded to a state that tolerates poverty, even misery, and social exclusion well beyond of what is truly unavoidable in an economically underdeveloped labour-surplus country. The political goal of our project was to help to de-legitimize protracted social exclusion by contributing to the emergence of a “yes-we-can!” message, by strengthening the notion that much can be done indeed to overcome exclusion – even in very poor countries and that there is no legitimate excuse for not doing it.

The present volume comes quite timely: 2010 is the “European Year for Combating Poverty and Social Exclusion”. It certainly is interesting reading. But its main function is meant to be more. It is meant to be part of the ongoing endeavour to de-legitimize political inertia, timidity and myopic “realism” vis-à-vis the problem of social exclusion. The Friedrich Ebert Foundation is aware that more is needed and it intends to continue its efforts to contribute to the build-up of political pressure for effective policies of social inclusion in South-Eastern Europe.

The editors, Sofia July 2010

Alfred Pfaller\*

Marc Meinardus

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\* Alfred Pfaller initiated the project as director of the office of Friedrich Ebert Foundation in Bucharest, Romania in 2007. He also led the team that drafted the basic policy paper for SEE and contributed to the Romanian country study. After his departure in 2008, Marc Meinardus, incoming director of Friedrich Ebert Foundation in Sofia, Bulgaria took over and initiated the process that led to the Bulgarian country study as well as the formulation of the official Bulgarian strategy that recurred in good part to this policy paper. He organized the final regional conference as well as the publication of the present volume.



## Part 1: Country Studies

### Policy Priorities for Social Inclusion in Bulgaria

Duhomir Minev,  
Lyuben Tomev,  
Dragomir Draganov

#### Conceptual Framework

The authors of this report have adopted the definitions of social exclusion and social inclusion in accordance with the concept of the European Union (EU) set forth in the Joint Report on Social Inclusion 2004, namely:

- *Social exclusion:* Social exclusion is a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by virtue of their poverty, or lack of basic competencies and lifelong learning opportunities, or as a result of discrimination. This distances them from job, income and education opportunities, as well as from social and community networks and activities. They have little access to power and decision-making institutions and thus often feel powerless and incapable to take control over the decisions that affect their day to day lives;
  - *Social inclusion:* Social inclusion is a process, which ensures that those at risk of poverty and social exclusion gain the opportunities and resources necessary to fully participate in the economic, social, and cultural life of their communities and to enjoy a standard of living and well-being that is considered normal in the society they live in. It ensures that they have greater participation in decision making, which affects their lives and access to their fundamental rights.
- In this respect we have accepted that social inclusion policy is a process aimed at achieving a better quality of life for those at risk of poverty and social exclusion. It is important to note here that *the economic capacity of a country is not the only factor contributing to what the social inclusion potential currently is or will be at a future point of time. Political commitment also plays a crucial role in this respect.* The arguments in favor of this are two. Firstly, in Bulgaria there are a large number of strategies (close to 200), and most of them are related to social inclusion. Regardless of this fact, the actual results are far from the ones expected. Secondly, if quality of life was only contingent on the extent of economic development, there would not be a need to draft strategies and set priorities in the area of social inclusion. Even this report would not be necessary. From this perspective:
- *Sustainable economic growth, stable macroeconomic environment, and public funds are important prerequisites for implementing the social inclusion priorities.* The economic growth rate should be maintained and accelerated, employment should be stimulated and the quality of employment should be improved, while the currency board mechanism should be kept in place in order to guarantee the country's financial stability. But although economic development is an important factor, it is not the only means of achieving social progress, and in most cases it is not even the most important one;
  - *Fast economic growth does not in itself result in social inclusion,* additional measures are necessary, but what is most important is the mainstreaming of the quality of life issue;
  - *Appropriate allocation of existing resources is of key significance.* It is a small excuse to say that resources are scarce or productivity is low; on the contrary, there are

enough funds, but they can be distributed more effectively. The EU funds provide additional opportunities, which are not being used in that particular respect and in line with their precise designation;

- *In its budget policy, the government should commit to establishing stable structures and support mechanisms for social and economic development and the practice of “re-insuring” revenues should be overcome and replaced instead by reforms and priority financing of the healthcare and educational systems;*
- *An integrated approach is necessary, which addresses both poverty and social exclusion as problems related to the functioning of economic and social institutions (the market, the government sector, civil society, the family, etc). Such radical change implies three things: firstly, the institutions should be assessed in terms of their “inclusion” function; secondly, the quality of life issue should be integrated in their mission; and thirdly, if they do not perform their inclusion function effectively, they should be reformed;*
- *The democratization of institutions is an important part of their reform, this entails a recognition of the right and role of the stakeholders (social partners, civic organizations, individual citizens) to participate directly and to influence the decision-making process when it affects their lives.*

We believe that social exclusion could be overcome within a reasonably short period of time. What is needed, however, are *bold, prioritized (by sphere), and well-targeted (to the target groups) measures*. Governments prefer to focus on everything and at the end of the day they achieve very little or practically nothing. This is the reason why prioritizing is the key to successful policies. And inasmuch as social inclusion is an issue subject to integra-

tion in all public policies, several sectors could be identified where progress is achievable in a short period of time and where tangible results could be attained. This is the reason why we are of the opinion that:

- The priority social inclusion policy sectors are: *education, healthcare, the labor market, and anti-poverty policy;*
- Out of all these sectors, there is *none „that is more important than the most important”* and all of them are pillars of a consistent social inclusion policy;
- Activities should take place *simultaneously in all four sectors*, regardless of the fact that the results in each sector will become visible in different periods of time;
- *The target groups*, aimed to be affected by all these measures, are the following: children, the unemployed, the working poor, illiterate people, economically active under-qualified and under-educated people, the homeless, people who live alone without relatives and family, families with many children, single parents, pensioners, Roma families, people with disabilities.

### Challenges

Wide public support should be sought in the combat against poverty and social exclusion. The responsibilities need to be divided among the state institutions, the employers and the non-governmental sector. In this way, social policy will really be productive. Raising public awareness and establishing an understanding of social inclusion as an issue that is in the interest of society as a whole, entails recognizing the rights of vulnerable individuals to live in a dignified way and be involved in public life. It is not sufficient to enshrine this right in the country's Constitution, because its protection is up to the politicians and the political institutions, which are entrusted with the task of finding solutions to the problems when they logically oc-

cur, and to bear the ensuing consequences. In this respect, modern Bulgarian society is faced with a number of challenges. Without specifically focusing on the demographic crisis, which is considered to be a fundamental challenge in most European countries, we see the following challenges as being the most important:

- (1) *Economic growth which does not translate into poverty reduction.* The low degree of socialization of economic growth is being reinforced not only by neo-liberal policies, uncontrolled accumulation of capital, and growing profits, but also by the lack of trust in the social systems and the protection mechanisms put in place. The trend of increasing polarization and drastic inequality in society, on one hand, and the underdeveloped social security systems and restricted access to education and healthcare, on the other, pose a high risk of "recurrent poverty";
- (2) *Low labor remuneration as a share of the GDP.* Labor compensation as a share of the GDP has been dropping throughout all the years of transition and economic reforms, and has reached 32–34% in the past couple of years – the lowest percentage in the EU. This problem became a focal point of discussion and debate among the social partners. These discussions usually take different forms, and they are in favor of certain economic interests rather than being based on principles and values. The unbiased Eurostat data show that labor productivity in Bulgaria, measured on the basis of PPP<sup>1</sup>, stands at about 36% of West European levels, whereas labor income (based on PPP) amounts to about 20% of that level. In fact, there are sufficient reserves in Bulgaria for increasing labor compensation. Income increase, however, has been given

up in favor of minimizing macroeconomic risks, taking into account the situation that a Currency Board mechanism is governing the country's finances;

- (3) *Fiscal policy based on the principle of "over-securing the revenues".* In a situation of deep social disparities, the government has been pursuing a consistent tax policy, which contributes to inequality instead of providing solutions to the problems of poverty and low incomes. The tendency of flattening the taxation scales each successive year logically led to the introduction of a flat tax rate of 10% on personal income without any non-taxable amount whatsoever. A purely institutional problem such as "tax collection" was replaced by the notion of "over-securing the revenues". The relatively high universal VAT rate of 20%, together with the constant increase of excise taxes and the expansion of their coverage, resulted in a ratio between direct and indirect taxation which contradicts the usual European practices. Thus for instance, in the 2008 government budget only the revenues from the VAT and the excise taxes amounted to 71.6% of the total revenues (in Austria the revenues from these taxes stand at 25%). Undoubtedly, this exerts significant pressure on consumption and is a burden on all ordinary citizens. "The reversed tax structure" in Bulgaria is a paradox in terms of policy – money raised from poor taxpayers is used to finance programs for their own social inclusion;
- (4) A sharp rise of the cost of living (and of some of its components in particular, e.g. food and energy), which is not being compensated by any income increases. For full 18 years now it has been impossible to restore the real value of both labor remuneration and pensions at their pre-1990 levels. The purchasing power

<sup>1</sup> Purchasing power parity (PPP) – measures the prices in different countries and transforms the values into a joint arbitrary currency called «purchasing power standard» (PPS).

of the average salary has dropped by 41.1%, and that of the average pension by 39.1%. What is of an even bigger concern is the fact that the price of basic food products and energy sources has gone up, and those are the two most important expense items for Bulgarian households and especially for the low income households,

the consumption and expenses of which are mostly for food and energy. Due to the low elasticity of this type of expenses, this has become a serious burden for the budgets of poor households and practically makes it impossible for them to afford other things such as education, leisure, transport, etc.;

**Changes in the purchasing power of an average salary (AS) and pension (AP) with respect to some consumer goods and services in the period 1990–2007<sup>2</sup>**

Goods and services	Changes in the purchasing power of AS (in percentage terms)	Changes in the purchasing power of AP (in percentage terms)
Dobrudza brand bread	- 60.2	- 58.8
Yogurt	- 66.7	- 65.6
Milk	- 60.8	- 59.5
Electricity	- 68.3	- 67.2
Liquid fuel for heating	- 68.9	- 67.7
Coal for heating	- 80.9	- 79.6
Real Average Salary	- 41.1	-
Real Average Pension	-	- 39.1

(5) *Deteriorated qualitative and quantitative parameters of the available human resources.* The levels of economic activity and employment are relatively low, the problems underlying the phenomenon of the “discouraged unemployed” have been and are being ignored, and so are the problems of the high share of school drop-outs, who are a potential source of social exclusion. The available resources of “cheap, highly educated, and qualified work force” are being depleted and are gradually becoming a myth. There is a “depreciation” of professionalism and qualification, because the work force fails to get reproduced in quality terms. There have hardly been any sufficient, pro-active, and targeted measures aimed

at life-long learning and at attaining a qualification, which is adequate to the labor market needs, both nationally and at the company level. This increases the gap between the needs of the economy and both the quality of the work force and its employment adaptability, including in this notion flexible employment as well;

(6) *A growing division of the labor market into two main segments:* one which requires high qualification and offers high remuneration, and another one of low pay and non-typical employment, which results in current or future poverty. The

<sup>2</sup> Source: Own calculations based on data of the National Statistical Institute (NSI: Salaries, Consumer Price Index, average prices and quantities of basic food and non-food products purchased by the households; data from the National Insurance Institute about pensions 1990–2007

desire to increase the labor market flexibility requires the development of adequate security systems and building bridges between the different social spheres and the employment status, thus opening the local labor markets to the poor and unemployed. Flexible security (appropriately funded and managed) and active inclusion are of a paramount importance for the strengthening of solidarity and social cohesion, but it should be clear and transparent to everyone and there should be a social consensus in place that flexible security (in all its forms) has a high social cost and cannot be financed by making use of neo-liberal instruments and pursuing a restrictive monetary policy;

- (7) *A high disease incidence and negative assessment of the overall health status of the population.* There is a high disease incidence in the country, which is not comprehensively and publicly monitored. The haphazard monitoring efforts do not provide a clear picture of this dangerous phenomenon. Illnesses, which were thought to be cured, are coming back. Tuberculosis is re-visiting. AIDS and Hepatitis C are no longer a chance occurrence on the health map of Bulgaria. High blood pressure and diabetes are no longer predominantly adult diseases, as they affect children as well. The comparison of the standardized mortality rate coefficients<sup>3</sup> for blood circulation diseases shows that for 2004 Bulgaria ranks first among all EU member-states. Given that the mortality rate from the above causes is 342.16 for men and 224.94 for women in the EU, these indicators in Bulgaria are 840.52 for men and 559.95 for women respectively. Bulgaria ranks among the first in Europe in terms of mortality and incidence of socially significant diseases;

- (8) *Diverse and sustainable poverty profile.* The category of the poor in Bulgaria is not a homogeneous group with a clear-cut social profile. What the poor have in common are the deprivation and hopelessness, but otherwise it is a diverse group of people of different education, gender, ethnicity, age, religion. In Bulgaria, apart from the pensioners and the unemployed who face the highest risk of poverty, some employed also fall into the trap of poverty, due to their low or irregularly paid salaries. There is a continued presence of groups that are permanently excluded and there is a persistent danger of reproducing the inequality in life prospects from one generation to the next (inherited poverty). The poverty risk for the unemployed is extremely high – from 33.3% in 2001 it rose to 37.9% in 2007<sup>4</sup>. The Roma in Bulgaria continue to be exposed to several poverty risk factors – low education, unemployment, poor housing and living conditions, habitation of remote rural areas, extended families<sup>5</sup>. According to sociologists<sup>6</sup>, the general trend of maintaining high poverty indices in Bulgaria is symptomatic for the formation of a durable “culture of poverty”. Its ability to reproduce to the next generation poses a serious risk of “second generation poverty”, which would be a new challenge for modern Bulgaria;
- (9) *Regional disparities in the quality of life.* The territorial contrasts are reinforced by the unequal distribution of investments, and on the whole they continue to be an obstacle to the overall economic growth. The map of poverty in Bulgaria shows drastic differences in terms of geography. The relative share of the poor by municipality varies from 1.8% in the capital city Sofia

<sup>3</sup> Source: Health for Everybody – statistical data from the Regional Bureau of the World Health Organization for Europe, 2008.

<sup>4</sup> NSI. Laeken indicators: Results of the 3<sup>rd</sup> Round. 2007

<sup>5</sup> Bulgaria – The Challenges of Poverty, NSI, 2003

<sup>6</sup> ASA, Dynamics of Poverty in Bulgaria.



to 53.8% in the Municipality of Boinitsa, District of Vidin. The poverty profile in the cities and in the rural areas is quite different. Urban poverty is characterized by lack of money, whereas rural poverty – by lack of employment, low quality education, as well as by the lack of access to healthcare and social services. In the rural areas the in-kind type of consumption continues to form a significant share of the overall consumption at the expense of income from labor remuneration or entrepreneurship;

(10) *Inefficient use of public resources and low adequacy of social transfers.* There are very sharp contrasts in the capacity of the individual social systems and instruments to influence poverty reduction. Pensions as a main social transfer payment play a key role for poverty reduction in Bulgaria, regardless of their low nominal value. This is explained with the fact that they have a relatively high share in the total income of households – 22.1% against the 47.7% relative share of labor incomes<sup>7</sup>. The remaining social transfers have an insignificant impact on poverty reduction. Data from 2007 show that social transfers lower poverty levels to a significant extent: from a level of 40.5% they drop to 17.2% when social transfers are included, and when all other social transfers are added, they drop to as low as 14.1%<sup>8</sup>. This demonstrates both the low level of social compensation, assistance and family allowances, and the ineffective targeting of funds to the poorest social groups and strata.

### Education

The establishment of an accessible, inclusive and good quality educational environment

should undoubtedly be a key obligation of every state. It is equally evident that the solution of the problems in the educational system in terms of social inclusion is a complex issue. Usually, two approaches are employed. The first is to solve all the problems of the system at the same time. The second one is to focus on one or several problems, which are deemed to be the most important.

This report relies on the second approach. The rationale is that everybody has an opinion on the issues of education and there is rarely agreement as to which of the measures proposed by the different stakeholders should be ultimately chosen. This is the reason why historical experience gives proper grounds and provides worthy arguments making it possible to focus on solving merely one or not more than just a few of the numerous problems.

Such a problem is the issue about early school drop-outs and it is taken up not only because access to good education for all children and youth, including children from poor families, rural areas, or of Roma origin, should be a priority in any social inclusion strategy in South-Eastern Europe, but also because Bulgaria has made no progress in curbing this problematic trend to date.

Data show that the net enrollment rates remain relatively stable and are particularly low in the 3 to 6 age bracket (kindergarten) and the 15 to 18 age bracket (secondary education). An average of between 2 and 3% of the students do not complete their education. Obviously, changes are necessary.

Measures could be taken in the following areas:

(1) *Changes in the funding of the educational system.* The funds allocated for education are a mere trifle given the needs of and the high expectations from the system. The delegated budgets will certainly give more powers and flexibility to the headmasters, but will not solve the problem

<sup>7</sup> NSI, Household budgets in the period 1999–2007

<sup>8</sup> NSI. Laeken indicators: Results of the 3<sup>rd</sup> Round. 2007

with the chronic under-funding of the system. Problems such as leaking ceilings, cold classrooms, dilapidated sports facilities, etc., will remain unsolved;

(2) *Improving the preparedness of the students for the educational system.* It is categorically necessary to ensure universal access to nurseries, kindergartens and pre-school educational facilities. Research data show that the cognitive and intellectual abilities of children are formed during the first three years of their life. All measures taken after that age would be less effective. In this respect it is necessary to:

- Review available municipal property and the opportunities for it to be used for building new kindergartens;
- The state should cover part of the kindergarten fees for children from 3 to 5. This is how the issue of the compulsory pre-school education may be coped with;
- Kindergarten enrollment should be made compulsory, not voluntary as it is now according to the National Education Law. Parents may waive that right, but should be obliged to send their children to these educational institutions. This is a categorical requirement for children with special educational needs;
- Children from poor families should be exempt from paying fees by virtue of a decision endorsed by the National Association of Municipalities (in the form a recommendation to the municipal councils), or the Local Taxes and Fees Act.

(3) *Improving the economic situation of families with children.* The material status of families is the most significant factor impeding them from sending their children to school. The reason why is that parents do not avail of the needed financial re-

sources to cover the costs (food, transport, clothing, school materials). According to data from surveys on the school drop-out rate, the lack of funds to cover the costs of going to school is quoted as the main reason for dropping out of school by 69.9% of the parents, and poverty in the family is seen as the main cause for an early drop-out by 50% of the teachers. Other contributing factors are child labor (especially for older students) and the need for children to help out at home. All expert assessments show that poor children are the biggest percentage of drop-outs. It is necessary to:

- Provide guarantees for the universal right to family benefits for all children and/ or guarantees for significantly improved access to family benefits;
- Expand the scope of the in-kind family benefits as long as the specific needs of the children have been identified;
- Making the extension of family and social benefits fully conditional. Not only shall parents be obliged to send their children to school, but also to take good care of them, take them regularly to the doctor, and refrain from subjecting them to violence and abuse;
- Provide free breakfast to all students up to the 8<sup>th</sup> grade (post-elementary and pre-high school level) instead of the 4<sup>th</sup> grade only (elementary school level), and increase the per-pupil costs for food;
- Partially or fully cover the canteen fees for all the children from economically disadvantaged families.

(4) *Improving the quality of the school environment.* The quality of school environment does not only make it easier for children to learn. Nice schools and the modern teaching environment affect the children's willingness or unwillingness to

- go to school, spark an interest in learning, and take education up in the hierarchy of the value system shared by students and their parents;
- (5) *Free teaching materials for children up to 16 years of age.* Given that education is compulsory by law, and school education is free, this legal provision should be financially provided for. The cost of teaching materials should be included in the per-pupil operating costs;
- (6) *Attention should be paid to children who find it hard to cope with the curriculum or have a so called “intellectual barrier” (do not speak the language well, are not prepared for school, etc).* No matter how much investment is put into the improvement of the school environment, there will always be a group of pupils and/ or students who are unable to make full use of it. A good support mechanism for children from economically disadvantaged families, children with low grades, and children with learning disabilities, could be the so called full-day classes with lunch provided. “Catch up” programs should be developed, taking into account the type of difficulties the pupils and/ or students have. It is in this way that the school facilities and teachers’ time will be more efficiently used as well;
- (7) *Improving the quality of the existing and building new sports facilities in schools.* In this way children will have a good time at school and form a positive attitude to attending school;
- (8) *Strengthening the cooperation between child protection directorates and schools* in cases of truancy or when parents do not let their children go to school. It is appropriate to introduce administrative, property, or even penal sanctions against such parents, along with measures to link the right to and the amount of family benefits to school attendance. Closer cooperation is also needed in cases of parents’ neglect, family conflicts, etc. What is needed to this purpose is to increase the powers of social workers and child protection authorities, because many times parents, although not openly stopping children from going to school, do not mind if they fail to attend it;
- (9) *Improving the social status and motivation of Bulgarian teachers.* The motivation of teachers is another important factor affecting school drop-out rates. The factors which could contribute to the motivation of teachers are: higher salaries, better opportunities for career development, access to resources for individual improvement and skill acquisition, and better school facilities;
- (10) *Drastic improvement of school discipline and control over the performance of headmasters and teachers* by the regional inspectorates, but also better public control over the performance of regional inspectorates and the supervisory functions of the Ministry of Education, Science and Youth.

### Healthcare

*Access to adequate healthcare is a priority for every social inclusion strategy.* The right to healthcare is a fundamental human right and no one should be deprived of it based on their personal income, property, residence or anything else. The overall approach we have taken is the so called *solidarity principle*, which entails that healthcare should be guaranteed by the state. A key provision of the Rome Treaty for the establishment of the EU sets forth the obligation of the state to provide equal access to high quality healthcare services for all citizens, regardless of where they live.



(1) *International experience shows that the chosen healthcare model should comply with the following criteria:*

- the level of economic development;
- the level of society's ethics;
- political commitment to health issues;
- a practically tested conceptual model.

The Bulgarian experience significantly deviates from the above requirements. Eight years after the onset of the health reform, carried out under the strong pressure of the International Financial Institutions, the outcomes from it are the dissatisfaction with the providers of healthcare services, shortages of specialized staff and constant social tension in hospitals and emergency units, on one hand, and, on the other, total discontent and helplessness on the part of the patients trying to find their way in the labyrinth of:

- „the reformed“ outpatient health care;
- „the under-funded“ clinical paths in the hospitals, and
- „the market luxury“ of the dental services.

(2) *The two main disadvantages of the currently operating healthcare system are inefficiency and unfairness. Inefficiency is there due to the squandering of qualified labor, the existing distorted incentives, which do not promote good qualification and practices, and result in over-consumption in some of the sectors and limited access to others. Unfairness is there due to the unequal treatment of the different categories of patients, the disproportionately low volume of medical care and high quality health services for aged or immobilized patients, and for people living in small villages. Some medical specialists and hospitals are also treated in an unfair way mainly through privileges and direct or indirect subsidies;*

(3) *Hence the other problems in the healthcare system: big and growing inequality*

in labor remuneration for outpatient and inpatient health care, under-funding in a situation of increasing expenses for hospital treatment, restricted access to specialized medical services and at the same time misappropriation of the National Health Insurance Fund (NHIF) payments – overpricing of medication and incomplete medical services. To a very great extent these problems stem from the power imbalance in the system. In fact the system is organized around the doctors and their interests and is managed in a non-transparent way without taking into consideration the interests of patients. In such an environment, the creation of a market for health services and the reform of the system intended to serve the public interest becomes impossible and corruption naturally ensues. In turn, the above problems reinforce the social exclusion and result in low living standards for Bulgarian households and serious challenges for the social protection systems;

(4) *The healthcare reform led to a significant financial pressure on the households, especially given the deteriorating health status of the population. Official NSI data<sup>9</sup> shows that the relative share of the expenses for healthcare in the overall expense structure of households is clearly increasing after the reforms were introduced. In the period 1995–1999 the relative share of the expenses for healthcare was 1.9–2.9% of the total expenses. In 2000 it grew to 3.6%, and in 2007 it reached 4.7%. The low incomes of the population further impede the access to healthcare. This concerns especially the poor and the other vulnerable social groups. The unemployed who are not entitled to benefits and are not in the social assistance programs are*

<sup>9</sup> National Statistical Institute. Survey of Household Budgets, 2004

- left out of the groups of people whose health insurance is paid by the state budget or from other sources. Most of them cannot afford the 6% health insurance payments or the commercialized medical services. The representatives of ethnic minorities are another group whose access to health care has been restricted;
- (5) *Quite insufficient funds are allocated by the NHIF to cover the price of medicines.* According to data of the European Federation of the Pharmaceutical Industry, Bulgarian patients, as compared to those in the other European countries, pay a relatively high proportion of the price of medication out of their own pockets – 56%, which means that only 44% are covered by the NHIF. The average proportion in the EU is between 18 and 82%. The government not only could not find a way to increase the funds for medicines or to expend the available funds in a more efficient way, but also introduced the additional burden of 20% VAT on the price of medication. The medicine policy is accompanied by constant crises, related to the lack of or shortages of life-saving medication. It is paradoxical for a country, the Constitution of which defines it as “social”, to cite “fiscal” or “commercial” reasons for the unequal access to modern treatment and quality medicines. By default, this limited access (given the low average incomes) leads to secondary poverty and permanent social exclusion;
- (6) Apart from the health insurance payments, a part of the population has *significant additional expenses for health services*, such as:
- *additional regulated payments* – a user (co-payment) fee for every visit to the GP or a specialist doctor, as well as for hospital treatment. This restricts patients’ access, especially in those cases when their treatment requires complex diagnostic efforts and multiple visits to the doctor;
  - *additional payments for outpatient care* – the rationing of specialized treatment forces patients to pay for laboratory tests. The availability of specialized and expensive laboratory tests does not meet existing needs. *Waiting lists* have to be drawn up and those, who cannot wait for the tests they need, have to pay;
  - *additional payments for inpatient care* – for medicines, supplies, tests, food;
  - *unregulated payments* in the form of donations, “gratitude”, etc. According to expert assessments, all these payments are estimated to amount to about BGN 15 billion. These are additional resources, which are forcibly invested in the system, but it is also a potential for possible corruption, compromising the entire healthcare reform. All of the above leads to the conclusion that the poor, if they want to receive treatment, become even poorer, and if they do not receive treatment, become sicker;
- (7) *The shift from budget funding to health insurance funding* has left a number of gaps and challenges within the system. The current model of organization and functioning of the healthcare system violates many economic, social, and ethical principles, and the government has abdicated from its constitutional obligation to attend to the nation’s health.

**Funding of hospital care in BGN/ ml<sup>10</sup>**

Source	2004	2005	2006	2007
NHIF	328,0	478,4	614,0	680,2
Ministry of Health	373,0	300,0	95,0	100,0
Municipalities	51,0	-	-	45,0
Other agencies	101,0	53,0	59,0	59,6
Additional funds	-	45,0	-	-
NHIF Reserve	-	-	104,0	114,8
<b>Total</b>	<b>853,0</b>	<b>876,4</b>	<b>872,0</b>	<b>999,6</b>
<b>Number of clinical paths</b>	-	120	299	299

As the above data show, the funding of hospitals has been decreasing, as the number of clinical paths goes up, but the total financial resources are going down in relative terms. In practice the NHIF funds about 60% of the cost of the clinical paths. Hence the paradox: hospitals, which have more patients, fall deeper in debt. There is also another dangerous trend, namely a gradual shift to the better funded clinical paths and refusal to treat patients in the “cheaper” ones (the real reasons for the refusal are concealed). On the other hand, certain illnesses and diagnoses are not included in the existing clinical paths, there are no funds for emergency medical services and primary care in hospitals. The lack of sufficient funding makes it impossible to renovate the obsolete facilities, to buy modern diagnostic equipment and to run tests. In the meantime, the registration of medical hospitals in compliance with the Companies Act continues, and their Boards of Directors are a crib for government and municipal bureaucrats.

(8) *Being aware of the numerous acute problems concerning the access to and satisfac-*

*tion with primary medical care, we believe that it is necessary to lay down a system of indicators for evaluating and comparing the existing access disparities based on geographic, temporal, organizational, financial, demographic, health, and socio-cultural factors. Applying such a system, meant to assess and analyze the access experience of the different social groups, will facilitate the formulation of strategies and policies aimed at establishing control and ensuring intervention in order to improve the end results and effectiveness of primary healthcare and respectively protect the rights of patients. We support the policy of introducing a guaranteed package of basic healthcare services and believe that the scope of the package in accordance with the mandatory health insurance and the national health map shall be determined in consultations with the social partners from the National Tri-parite Council, the National Association of Municipalities and representatives of the Patients Organizations;*

(9) *Based on the understanding that a fundamental change of the model is impossible and that such a change might cause even bigger shake-ups to the system, we propose the following essential improvements:*

<sup>10</sup> Data of the Ministry of Health and the NHIF

- *Allocation of more funds for health-care – not less than 6% of the GDP (compared to the 4.2%, which are being allocated now), with a focus on prophylaxis and outpatient care, based on the services that have actually been performed. The capitation principle is ineffective not only in terms of spending the limited resources, but also in terms of curbing competitiveness;*
- *Emergency medical care and inpatient care should be an integrated system with no other alternative but public organization. Since the structures in this sphere will remain regional monopolies, competitiveness here could be at team or personal level. Labor compensation should correspond to the qualification, work hours, and number of patients treated, and must be higher than that in the non-emergency healthcare sectors;*
- *Improving outpatient care should by all means entail valuing the clinical paths and covering all diagnoses. Should this fail to take place, we cannot expect to have quality medical services, which meet the established standards and good practices, on the one hand, and their supply and back-up with resources, on the other. Otherwise, shortages will continue, which in turn will further depress the current level of labor compensations;*
- *No compulsory complementary health insurance. It will not result in improvements with respect to the overall scope of healthcare, but will lead to more people being left out of the system. It will not improve the quality of care as well, because the services will be delivered in the same medical facilities and by the same people. The publicized emergence of “competing, mostly private, health insurance funds” (or the so called second insurance pillar) where contributions could be made, may only lead to even larger wastes in spending the limited money, which the healthcare sector has to subsist on;*
- *More transparency in the management of the system through strengthening the involvement of patients and their organizations in the processes of decision-making, monitoring, and evaluation of its performance. The current NHIF system does not allow for any actual participation of the patients in the decision-making process;*
- *The financial incentives for medical workers and doctors should be targeted at the rural areas in the form of bonuses, benefits, transportation and accommodation money, etc. This will greatly contribute to overcoming the regional disparities in the access to healthcare and will guarantee the availability of a minimal package of health services;*
- *Conclusion of an annual agreement between the Ministry of Health, the Trade Unions and the Employers’ Organizations concerning the healthcare sector with respect to the cost of labor for the providers of medical services before the signing of the National Framework Agreement. In this way there will be guarantees for establishing interlinks between the volume and quality of the medical services performed and the opportunities for fair remuneration for the highly qualified work of doctors and specialized medical staff alike;*
- *Adoption of a special law on the registration and funding of the medical facilities. Healthcare is a priority social sector in any modern country and should not be treated as any other business activity, which func-*

tions based on market principles. In this respect, there should be alternative funding sources different from the NHIF, including budget allocations;

- *Opening health and dental practices in all schools*, whereby the funds are provided by the budget of the Ministry of Health, not by municipal budgets. To this purpose, the funding regulations should be drafted and amended in such a way, so as to stimulate the medical professionals to take up those “unattractive” positions, such as those of a school doctor, dentist, nurse, etc.

## Labour Market

### *More and better jobs*

Achieving full employment is a key objective, the achievement of which will contribute to attaining most of the other social policy objectives, namely: inclusive society, poverty reduction, providing jobs for everyone, active social state.

In this context Bulgaria is one of the EU member-states, which have made significant progress in improving the labor market. The Bulgarian economy is no longer burdened by the high unemployment rate typical for the early 1990s, and the unemployment rate today is even lower than the average in Europe. The employment rate has been steadily increasing, with the number of the employed having gone up by at least 300 000 people for the past three years (according 2008 data).

And yet, from the European perspective, the current level of economic activity and employment in Bulgaria cannot be said to be high enough. To a very large extent this is due to the fact that there groups of the population who still find it difficult to participate in the labor market. Those are the long-term unemployed, undereducated people, people with disabilities, young people with no work

experience and first job seekers, older workers with obsolete knowledge and skills, single parents and mothers with babies, people with family duties, economically inactive persons. Those groups have been identified and outlined in all strategic documents on the issue, including the National Reform Program, the National Employment Promotion Plans, The Updated Employment Strategy, etc.

Therefore efforts are needed to increase the labor supply – both on the part of the unemployed, and on the part of the people who currently do not belong to the country’s work force. This is the reason why labor market initiatives are extremely important.

(1) *Shifting the focus of labor market policy from subsidized employment to qualification and training.* It could be argued that the educational level of the people who are currently unemployed and their qualification do not meet the actual requirements of the market. Statistical data show that in June 2005 the total number of the unemployed was 441 000 and that 16,000 unemployed were competing for a single vacancy. In June 2008, the registered number of unemployed was 221,000, whereby 8 unemployed were competing for a single vacancy. Thus, for a three year’s span of time, the number of the unemployed dropped by half – and so did the pressure on the labor market. Hence the pressure on the market was mechanically lowered – those who are qualified were able to find a job, and those whose skills did not meet the requirements of the employers remained unemployed.

By the end of 2008, however, under the impact of the economic crisis, unemployment in Bulgaria began to rise, and in February 2010 stood at 10.26%. Over the following three months, it marked a slight decline, and as of May 2010 the unemployment rate amounted to 9.62%,



- or a little over 354,000 unemployed altogether, whereby the prospects are for the retention of this number or even for its further gradual decline, due to the rise in seasonal employment;
- (2) *Applying a regional approach to the planning and implementation of labor market initiatives.* The pressure on the labor market varies. Labor initiatives should adapt to this phenomenon and be targeted at the underdeveloped labor markets where unemployment is higher and the pressure is bigger. For instance, by the middle of 2008, the funds disbursed by the regional employment offices in Sofia for different programs and measures amounted to 9% out of all available funds. The average unemployment rate in those areas however was only 2.7% at that time;
  - (3) *The legislation promoting employment should incorporate the principle of equal opportunities and equal treatment in a better way.* For example, Art. 23 of the Employment Promotion Act provides for a ban on employers to set any gender, age, ethnicity, nationality, and health criteria for their vacant positions. Not all of the requirements of Directive 2000/43/EC (e.g. race) and Directive 2000/78/EO of the Council (e.g. religion and beliefs) have been included in the mentioned Act. Family status, place of residence, and social status have also been omitted;
  - (4) *Intermediary services performed by the employment offices should be subject to quality control.* In this connection, the processes of providing public services should be certified according to some of the generally known quality standards (e.g. ISO 9001);
  - (5) *It is necessary to establish a system of monitoring, evaluation and forecasting the needs of the local labor markets.* The idea for this initiative is far from new, but so far such a system for regular surveys has not been introduced. Such a system will make it easier to draft programs and measures for employment promotion and will increase their effectiveness and efficiency. A typical example is the program for Professional Training for the Tourism Sector Needs, where only 2 people were enrolled as of the beginning of 2008. This mechanism will also provide a much more specific rationale for the annual National Employment Promotion Plans;
  - (6) *The employment promotion legislation should be more target-groups oriented and less programs and measures oriented.* Thus for instance, the Employment Promotion Act mostly describes the services performed by the employment offices and the measures available to employers and job seekers. Undoubtedly, this is necessary because it provides the legal grounds for delivering the services. At the same time, however, the Act needs to be amended in at least four major areas:
    - To set forth clearly and exhaustively all vulnerable groups on the labor market. Such an attempt was made in the additional provisions of the law where more than 10 such groups have been outlined. The group of people who are not part of the labor force, however, has been totally omitted. It turns out that if such people fail to register at the employment offices, the labor market initiatives cannot reach them in any possible way;
    - To define the obligations, rules, and procedures, on the bases of which the officials in the employment offices provide the so called “labor intermediation” for vulnerable persons on the labor market. These more than 10 special groups have quite different needs. The approach of employment officials

to first time job seekers who have no work experience whatsoever should be completely different from the approach appropriate for a disabled person;

- To define labor market integration measures for all disabled individuals, aged workers, mothers, and individuals encumbered with specific family duties. At this stage, these groups are mainly covered by programs, including “Supporting Motherhood, Assistants for People with Disabilities, National Program for Employment and Training of People with Permanent Disabilities”. These are just a few of the good practices and they can be legally regulated as measures. This will ensure the sustainability of their positive effects;
- To define measures for the labor market integration and re-integration of people who are not part of the labor force and for the discouraged job seekers as well. It is of no consequence that those people are not in the group of the registered *unemployed*. What matters here is the fact that they *do not have a job* and this is obvious without having to refer to European and international classifications. Identifying those people who remain unreachable for labor initiatives is only the first step in integrating them in the labor market.

#### *A New Approach to Employment Adaptability of People with Disabilities*

Increasing employment is not only a matter of labor market policy, but also is an issue related to macroeconomic policies, to the educational and healthcare systems, infrastructure, business development, innovations and investments, and research and development at large.

This is the reason why it is of key importance to gain a clear understanding of the

sustainable and constructive link between macroeconomic growth policies and the human resources development policies.

In the context of an inclusive labor market, investments in the knowledge and skills of the vulnerable groups are extremely important and should not be underestimated. For those groups subsidized (secondary) employment is only a temporary solution. The way out of poverty is to drastically improve their chances, their human and social capital. This is a focal point of the life-long learning concept. Its role in increasing the employment adaptability of vulnerable individuals is beyond any doubt.

Life-long learning outside the educational system is a wide-spread practice in the EU member-states. The most recent Eurostat data show that close to 17% of Europeans are involved in some form of extracurricular education. For Bulgaria this percentage is 10 times lower – 1.7%. The comparison shows that only 2.6% of the unemployed have participated in such forms of learning. In the EU this percentage is about 22%.

No additional analysis is needed to identify the problems, which the vulnerable groups are facing on the labor market. Generally, when no specific vacancy is concerned, the first filtering criterion, set by the employers, is the basic level of competencies. These are requirements for digital competencies and proficiency in working with modern technologies, foreign language, computer literacy and skills, willingness to learn, communicative skills, skills for individual organization of work, etc. Such skills can be acquired at a good school and from team work experience, which most of the vulnerable individuals are lacking altogether.

The second barrier is the requirement to present documented evidence not only for completed education, but also for language proficiency, computer skills, professional qualification and specialization. Such evidence

cannot be obtained by the unemployed. For them the training costs, the transportation expenses, and the inability to attend appropriate forms of training for family reasons could be quite problematic. Some motivational factors also come to the fore, because such trainings do not automatically guarantee a job.

In this respect, there are two types of challenges, which need to be addressed. The first one is related to the scope of training, and the second one – to the extent to which the specific training corresponds to the requirements of the labor market.

Overcoming those two challenges has a lot to do with finding an answer to the question “Who is responsible for life-long learning?” As far as the objectives of the Lisbon Strategy and the requirements for growth and employment are concerned, the answer is that the responsibility should be shared between the state, the employers and the workers. But the needs of vulnerable groups are not clearly addressed in the current state of affairs on the labor market.

In this context, it is obvious that the state and the government in particular should bear the responsibility for encouraging and co-financing the involvement of vulnerable groups in life-long learning. Market mechanisms alone could not adequately alleviate the risk of social exclusion for vulnerable groups. The marketing strategies of training centers currently aim at providing services to wealthier clients. There are even grounds to claim that at the time being they are behaving in an elitist manner.

This is the reason why the state (supported by the social partners) should expand the opportunities for people who are alienated from the labor market to increase their employment adaptability:

- (1) *It is necessary to look for ways to co-finance the various life-long learning forms for representatives of vulnerable groups.* However, the amount of BGN 500, which

is currently being allocated for qualification and training of an unemployed individual, is hardly likely to ensure the needed duration or quality of education;

- (2) *Initiatives such as students' loans, guaranteed by the state, are among the most wide-spread forms of stimulating life-long learning for youth.* The Students' Loan Act, which the Bulgarian Parliament passed not long ago, has not produced any traceable results as yet. Nonetheless, such instruments need and deserve to be further developed and encouraged;
- (3) *It is useful to consider the opportunity of providing small grants (scholarships or fellowships) to the unemployed to cover their professional training in a selected training center.* The resources for that could be obtained under the “Human Resources Development” Operational Program with the active involvement of the social partners – nationally and by industry;
- (4) *Training for vulnerable individuals on the labor market should be officially recognized as a basic public service.* This entails the pertaining requirements for a high quality service based on international standards. Such requirements should be put in place as regards all employment offices and should be codified in the respective primary or secondary legislative acts;
- (5) *The main objective of training and life-long learning for vulnerable groups is to facilitate the transition from unemployment to employment.* This is the reason why training targeted at vulnerable groups should incorporate at least two main characteristics: a) focused on the market needs; and b) of a high quality. The involvement of the stakeholders including the social partners within the framework of the National Consultative Council for Professional Qualification of the Labor Force in the development of the national policy in this sphere



is a condition for achieving the necessary focus on the market needs. As far as the latter characteristic is concerned, what is needed is the input of additional efforts. The most realistic option at this stage is to develop unified methodologies for providing training to the unemployed in line with the European Reference Framework of Basic Skills to be provided in the course of Life-Long Learning. The methodologies should be provided as an attachment to the already existing guidelines for organizing professional qualification trainings and should be set as a criterion for the eligibility of project proposals submitted by the training centers.

### *The Minimum Wage Challenge*

According to neo-classical and liberal economic theory, labor demand is a function of labor cost. Therefore should wages be increased via non-market mechanisms, then employment would consequently start to decline.

This theoretical axiom is cleverly used by some Bulgarian economists who were quick to advocate the immediate abolishment of the minimum wage.

The arguments in favor: By abolishing the minimum wage the labor market will become more flexible and business will not have to rely on distorted information about the cost of labor. Should there be a minimum wage and entrepreneurs decide to hire, it is assumed that they would rather violate labor legislation, i.e. the employment created would remain undeclared. Apart from that, the minimum wage is alleged to be another obstacle to free negotiations between employers and workers. The existence of a minimum wage is supposed to be a barrier to integrating vulnerable groups into the labor market – youth, people with disabilities, aged people – because what they could produce would bring less revenue than the cost of their hiring. And finally, the minimum

wage is almost seen as a supernatural instrument of power for the government, making it possible for it to pump out increasingly more money from the various business entities in order to re-allocate the revenues thus obtained through the respective government budget mechanisms for its own needs or to the family budgets of workers respectively.

Given all the above arguments, some Bulgarian economists propose that the minimum wage be totally abolished. If it fails to be abolished, then it should not be attributed any social functions whatsoever, because it does not possess the capacity of performing such functions.

At the same time, they do not take into consideration the fact that such arguments would only be valid in a situation of ideal competition, which is far from the situation we observe not only in the Bulgarian economy today, but is also typical for the global labor market situation. Also, a number of empirical analyses by prominent ILO researchers have proved that there is no direct correlation between the minimum wage and its increase, and the decrease of employment. On the other hand, it does have a significant impact on reducing poverty for the low-paid workers.

This only proves that the minimum wage not only has an important social function, but that it actually performs this function as well.

In conclusion on this issue, the reason why so much attention is paid to such arguments is not rooted so much in their economic justification, but in the fact that they resonate with certain political platforms. The dissemination of such ideas may have an adverse effect on industrial relations.

This is why the first urgent task is *to debunk the claims of those who say that the minimum wage is only the cost of labor and nothing else*. The minimum wage is indeed the cost of labor but not only that:

- Firstly, it has a social function and should be seen as a minimum level of pay, fixed in such a way so as to satisfy the minimum needs of workers and their families in the light of the predominant economic and social circumstances. The very fact that just a few years ago Great Britain, the country with one of the most liberal governments in the world in economic terms, introduced a minimum hourly wage is significant in itself and needs no further comment;
- Secondly, it should be set in accordance with the objective circumstances and this is why the cooperation with the social partners should not be neglected. To fix a minimum wage based on exaggerated and unreal criteria is as dangerous, as it is not to take into account the cost of labor and productivity.

This is the reason why a policy designed to create an inclusive labor market should provide guarantees for an *adequate minimum income for everybody* selling their labor. This could be done by taking three simple and realistic steps:

- *Ratification of ILO Convention № 131 concerning minimum wage fixing.* Although it dates back to 1970, the Convention is ratified by 50 countries, among which are four of the most developed EU member-states – France, Spain, Portugal, the Netherlands. The most recent ratifications are from 2006 – the Ukraine and Montenegro, and from 2007 – Kirgizstan. The Convention is ratified by almost all Balkan countries – Bosnia and Herzegovina, Macedonia, Montenegro, Slovenia, Serbia, Romania, as well as by Latvia, Lithuania, Malta, Moldova, Armenia, and Azerbaijan. As soon as the provisions of the Convention are made part of the Bulgarian legislation, this will set forth once

and for all the simple requirement that when fixing the minimum wage, not only the economic factors shall be taken into account, but also the needs of the workers and their families, namely:

- the cost of living;
- the level of insurance compensations;
- the living standard of the other social groups.

- *Ratification of the European Social Charter granting the right to fair remuneration.* Bulgaria joined the Charter in June 2000 but did not recognize the right of workers to remuneration, which would make it possible for workers and their families to maintain an acceptable standard of living. And if at the beginning of the century this decision was justified, today the situation is different. In 2000 Bulgaria was in a complicated economic situation. Today, however, the labor market and the public finances are in a much better shape;
- *Amendments to the legislation on minimum wage fixing by complying with the principle of tri-partite cooperation.* At the time being, the amount of the minimum wage is fixed by the Council of Ministers in accordance with the Labor Code. However, there is no procedure providing for prior negotiations with the social partners. Usually, they are informed what the amount will be in October or November of the previous year when the government budget is debated at Parliament. This is unacceptable for a country, which respects the traditions of tri-partite cooperation. It should be understood that this is no appeal to significantly increase the minimum wage. On the contrary – this is an appeal to fix it by taking into account the interests and opinions of all stakeholders. The opposite would only reinforce the disastrous image of Bulgaria, which is cited as the only EU member-state where

the minimum wage is set depending on possible budget restrictions.

### *Stop Tax Competition*

Ever since the beginning of 2006, a radical change in the philosophy of taxation has been taking place in Bulgaria. The authorities are persistently looking for ways to reduce taxes for legal entities and individuals. The arguments in favor of the package of tax reforms are the need to attract more direct foreign investments, to create a more favorable business environment, to encourage innovations and legitimate business in general, and to restrict the "grey" economy. The following measures have been taken to this effect:

- In 2007 the corporate tax was decreased from 15 to 10%;
- For the period 2006–2007 the total amount of social security contribution payments was decreased by 9 points and dropped from 42.7% to 33.7% from the income of a third category worker;
- A flat tax or a proportional tax scale has been introduced, which replaced the existing progressive tax scale for individual tax payers.

This is a typical example of tax competition. The theory is that governments usually resort to such measures for two reasons: firstly, to attract more capital in the economy and secondly, to prevent the drain of capital from the economy. It is a matter of interpretation whether the strategy is successful or not, but it should be noted that in 2007 new direct foreign investments amounted to Euro 6.1 billion – almost 10 times more than in 1998. On the other hand though, direct investments are mainly focused in three sectors – 38.4% in real estate, 28.7% in financial services and 13.1% in construction. The good news is that those are the three most dynamically developing economic sectors. In the first quarter of 2008 construction reg-

istered value added growth of 13.5%, and financial services and real estate – a total of 19.7%. The bad news, however, is that none of these sectors is in the group of the hi-tech sectors, i.e. does not produce any high technologies or knowledge about such high technologies. This is the reason why their contribution to the overall increase of productivity is low by default.

On the surface one might think that this issue is a matter of a different discussion altogether. Tax competition, or as it is otherwise known "tax dumping", is nothing else but a conscious refusal of the state to generate revenues for the national budget. This, however, needs then to be compensated and the way to do so is twofold. Unfortunately, both options have a very negative effect on the real and disposable incomes earned by hired labor.

The first option is to allocate less public resources to social needs. This undoubtedly refers to the remunerations in the public sector. Data about the execution of the government budget as of June 2008 show that BGN 868.9 thousand was allocated to public sector salaries, which is by 14.3% more than for the same month of the previous year. The aggregate inflation rate for the period however is 14.7%, which means that actually the budget expenditures on labor remuneration have not gone up, on the contrary – they have gone down. To a large extent this is due to the restrictive policy imposed on labor remuneration in the public sector. A fact illustrating of this policy is that public sector salaries indexation takes place in the middle, not in the beginning of the fiscal year. Such actions are justified with the need to link the increase of public sector labor remuneration with labor productivity. And if this is reasonable with regard to real sector enterprises, it is deprived of any rationale in public sector organizations and activities, which get paid by the government budget.

The second option is to use tax and insurance policy instruments to recapture an increasingly greater part of the income earned by households. This is one of the hidden objectives of the flat tax rate in the way it was implemented in Bulgaria – without any non-taxable amount whatsoever. It was initially known that close to two thirds of the employed and the self-employed pay insurance on a gross income in the interval between one and two salaries, i.e. up to BGN 440. It was clear that those people would incur losses due to the introduction of the flat tax and that their tax debt would rise. Nothing can force business to compensate such a loss. Business would do it only for highly qualified work force, for specialists with modern skills and abundant experience. The case was different however. The majority of people who were harmed by the flat tax rate are in low-productivity sectors where the work force turnover is high and there is shortage of staff.

The other evidence lies in the social security and health insurance policy pursued by the government. It is of no great significance that in 2008 the total amount of social security and health insurance payments dropped by 9 points as compared to 2005, since a decrease of these payments was made for employers only. The percentage of the gross revenues, which business should pay for their employees, dropped by 9.55 points, whereas the share of the personal social security and health insurance installments of the workers grew by 0.55%. This results from the changed ratio of these payments. From 65% to 35% in 2005, it increased to 60% to 40% in 2008 for the insurer and the insured respectively. The effect of this is that the burden for financing the social security and health insurance systems gradually shifted from business to workers. For instance, the estimated revenues from social security and health insurance payments to the National Social Security Fund made by

employers are 2.3% lower than the amounts collected in 2007. The estimated revenues from personal social security and health insurance payments, however, stand at 16.9%.

It is evident that tax competition has a very negative impact on hired labor. But in the future tax dumping may turn out to have unpredictable consequences. Today the official argument is that the economy is currently attracting investments and capitals. Soon we will have to figure out what to do to keep capital in the country. Finding the answer to this question will not be easy, because it is hardly possible to have lower taxes.

From the point of view of social inclusion policy it would be best if tax competition does not take place at the expense of workers and employees, nor – as it turns out – at the expense of those who are in the category of low-paid hired or independent workers. To this purpose, the following measures would be applicable:

- (1) *Introduction of a non-taxable amount with proportional taxation.* The flat tax rate in practice means that the wealthier pay lower taxes. It is not possible to persuade people that giving up the progressive scale and introducing the flat tax rate does not affect them. Instead of making promises, the only course of action is to take measures that will prevent the adverse effect on the poorer part of the population;
- (2) *The preferences for people with disabilities should to be increased parallel to the increase of the minimum wage.* At the time being, the tax base for people with permanent disabilities has been decreased by BGN 660, which equals the amount of three minimum wages. It would be better, if the three-wages rule is set by way of a legal provision, rather than laid down as an absolute number;
- (3) *Introduction of tax exemptions for single parents, families with many children,*

*preferences for the unemployed who are starting their own business, etc.* If we really want to have an inclusive labor market, we need to apply tax mechanisms to create conditions for involving as many people as possible in it. It may be true that such an approach will make the administration of taxes more complicated, but after all the mission of civil servants is to work for the benefit of society;

- (4) *Discontinue the process of shifting the responsibility for funding the social security funds to the insured only.* In fact, the payments of employers currently form about 63% of the revenues from social security contributions, given that this percentage amounted to 80% when the reform was started;
- (5) *Adoption of a more flexible mechanism for the indexation of the salaries in the public budget sector, which ensures real growth.* It is a good idea for the indexation to take place at the beginning, and not in the middle of the year. If possible, the increase should happen in two stages – for instance, in March and October. What matters here is the purpose and the actual purpose is to guarantee real growth, rather than an increase for the sake of increase;
- (6) *The indexation of the salaries in the public sector must be carried out on the basis of clear and objective criteria and priorities, agreed with the social partners.* Currently, it is claimed that the budget sector salaries get increased in line with the rise of labor productivity and individual performance. No one knows, however, what these terms actually mean. In both cases they indicate nothing but a mere subjective assessment. The professional qualification of employees does not count in the process of determining the level of their

pay, the emphasis is rather put on their experience and position. The average increase is the same for all organizations and activities regardless of whether the salaries there lag behind or enjoy a higher priority compared to others.

### *The Life Cycle Work Approach*

Guideline 18 of the Integrated Guidelines for Growth and Jobs of the Lisbon Strategy provides that the policy of EU member-states should be in line with the so called “life cycle work approach”. This approach is expected to contribute to integrating more and more people in the labor market, given the demographic challenges and the expected “shrinkage” of the available work force. This could be achieved by solving three problems: (a) Overcoming the existing differences in the employment of men and women; (b) overcoming the barriers to youth participation in the labor market through facilitating the transition from school to employment; and (c) prolonging the work life of older workers.

(a) The Lisbon Strategy has raised the ambitious goal for the employment rate for women in member-states to reach 60% by 2010. This is so, because accidentally or not, the employment of women is not equal to that of men. One of the main reasons for this phenomenon is the fact that it is women who need to make the hard choice between “work” and “family” more often. It is necessary to achieve a better balance between family and professional duties, because practice shows that the problems with reconciling family life and work result frequently exclude mothers from the labor market and thus decreases family income. Taking care of sick family members or children in most cases is a burden that is shouldered by women mainly. Thus, from the point of view of employment, single parents and parents of many children turn out to be in a very unfavorable situation.



It cannot be denied that Bulgaria is one of the EU member-states which has a truly progressive legislation in this area and has put in a lot of efforts to improve the balance between work and family life for mothers and women. It is not by accident that the employment rate for women is close to the Lisbon target. As of March 2008 it is 58.4%. Despite that fact, however, more efforts should be made in the following areas:

- (1) *Improving the organization and access to public services in the community* for families with children and families with dependent members (people with disabilities, sick people, etc);
- (2) *Providing incentives to fathers for childcare* and change of the existing stereotypes regarding the role of husbands in childcare and family duties;
- (3) *More flexible working hours*. It is necessary to review the current labor and social security legislation with a view to providing better opportunities for reconciling work and family obligations.

(b) Young people are one of the groups in the labor market, which in all member-states encounters more difficulties in its labor participation. In some countries, youth unemployment is almost two times higher than the average. Especially serious is the situation for youth from low-income families. They are much more likely to inherit all the vulnerabilities of their parents, including low education and qualification, unemployment and sub-standard lifestyle.

The issue of youth labor participation is frequently underestimated. It should be noted that the ILO definition about youth vulnerability does not include their difficulties in labor market integration only. Vulnerability is also there when youth are employed in low-paid jobs, in difficult and hazardous working conditions, without employment contracts

and the benefits thereof. This is why employment policy targeted at creating an inclusive labor market should take into consideration both elements. Measures are feasible in the following areas:

- (1) *Improved labor participation for youth* should be a priority at the employment policy strategic level;
- (2) *The Employment Promotion Act should provide for jobless youth to be supported within a short period of time*. For instance, within 3 months from the registration, young people who are not entitled to unemployment benefits (as they do not have 9 months of social security length of service) should be supported by employment measures and training;
- (3) *Labor participation of youth is directly linked with the situation of the professional training system*. The chances of young people to integrate into the labor market are much higher, if they can produce evidence of professional qualification. This is why it is necessary:
  - To consider *expanding the apprenticeship or internship practices*. In this case no new job or position has to be opened and the business will be more likely to use the opportunities provided by the Employment Promotion Act. Should after the apprenticeship or internship period the employer is actually satisfied with the performance of the young person, then he/she could be hired;
  - To *expand the scope of the current professional training* for jobless people. At present, the most widely offered trainings are those for acquiring professional qualification of first degree, class A. In other words, these are professional trainings for routine activities and in unchanging conditions. At the same time, employers lack quali-

fied personnel for more complex activities. Instead of importing such labor force from abroad, they could train their own personnel.

(4) *Strict control over hiring minors, compliance with the provisions of the labor legislation and the rules for safe working conditions.* Young people are in the group of employees who are most at risk of exploitation by incorrect businesses. Consciously or not, they tend to work in the grey economy without labor contracts and no social security coverage. Because of their age, they are more likely to work in hazardous and unsafe conditions and to risk their health. Such practices are very harmful and the benefits these young people derive are quite transient.

(c) In recent years the attention of analysts and decision-makers has been focused on the issue of aging population. At the EU level this issue is associated with problems such as the sustainability of pensions, the risk for economic growth, the shrinking workforce. This is the reason why member-states are trying to increase the labor participation of aged workers. It is not by accident that one of the targets of the Lisbon Strategy is for the employment level of aged people to reach 50% in 2010.

In this respect, coordinated efforts are needed in terms of employment and social protection policies for the market to overcome these demographic challenges in order to: 1) increase the number of years that an individual spends in the labor market, and 2) ensure that the number of people on long-term social benefits will remain stable in the future as well.

There are at least three successful groups of practices for stimulating the labor participation of older and elderly people. The first one is related to offering incentives to businesses to hire older workers. The second one entails more investment in improving the em-

ployment adaptability of elderly people. The third one is managing the organization and conditions of work so that older workers are able to maintain their productivity given their diminished physical capacity. Possible measures in this direction are:

- (1) *With regard to the incentives for employers to hire more aged people, more of the so called 50+ Programs could be developed with flexible work hours.* In Bulgaria there is a program entitled "In Support of Retiring" and the employers can make use of incentives in hiring unemployed women above 50 and unemployed men above 55. The work they are offered, however, is full-time. It would be useful to diversify these measures and create opportunities for half-time job positions;
- (2) *With regard to improving the employment adaptability of aged workers the Human Resources Development Operational Program has a great potential.* The opportunities, which the European Social Fund provides, should be used more extensively. Improving the qualification of older people along with that of the young generation should be made a priority when drafting the annual indicative program for fund allocation;
- (3) *The effectiveness of incentives for improving the working conditions in various enterprises is mostly associated with the opportunity to allocate sufficient resources for financing these activities.* The Working Conditions Fund has a leading role in that respect. It would not be a problem to allocate funds in the annual budget of the Fund for prolonging the working life of employees. In any case, however, the funds allocated for the Fund by the government budget are quite insufficient. The Human Resources Development Operational Program also provides opportunities in this respect precisely.

### Anti-Poverty Policies

The main problem with poverty reduction policies in Bulgaria is that they mainly rely on a specific approach known as the “*trickle down*” approach, actively promoted by the World Bank. This approach seriously restricts the objectives and instruments of poverty reduction policies, and puts the emphasis on economic growth as a key tool in fighting poverty. The objectives of anti-poverty policies are limited to alleviating the extreme deprivation (both material and non-material) experienced by the poor and are aimed at stimulating them to participate in the labor market. Over the past years, the experience in Bulgaria has categorically refuted the alleged effectiveness of this approach. *Economic growth and participation on the labor market do not adequately affect poverty.* The vision as to what the anti-poverty objectives should be and how to achieve them should be modified. It cannot be assumed that the achievement of these objectives will always be a result of economic growth. Obviously, some of the vulnerable groups and even some other groups (young people, older people) will permanently be excluded from economic progress.

For these reasons, every anti-poverty strategy should be based on the following:

- Focusing on the insufficient effectiveness of the *trickle down* approach as the main instrument of poverty reduction;
- Promoting the independent nature of the problems as a separate strategic line for policy improvement and hence formulating purely “social objectives”;
- Proposing areas of expanding the objectives and diversification of the mechanisms and instruments applied.

Expanding the objectives and applying an increasingly large number of diverse instru-

ments will have an effect in two directions, i.e. apart from reducing the extreme deprivation of the poor, they should create a favorable environment. This means:

- *preventive measures against poverty*, which minimize the risk of poverty upon the occurrence of poverty generating factors – e.g. job change, change of the health or family status, etc.;
- *recognizing and encouraging the personal involvement* of all citizens in the event of formation of integrated communities;
- the goal of such policies should not only be to reduce poverty, but also to *secure a life with dignity for them*, thus supporting the very foundations of democratic society, which would otherwise be eroded.

The main strategic line in expanding the policy instruments is to build capacity and create pre-requisites for the active participation of the poor in the process of overcoming their adverse situation. The focal point of the concept is to provide new opportunities to the poor, so that they could live the life they would like to. This is can be realized in three directions:

- increasing the economic chances of the poor by providing them with *access to resources for economic activity*;
- empowerment of the poor through *involving them in the decision-making process* (mostly formulation and assessment of the poverty reduction policies);
- improving the effectiveness of the *existing social safety nets* meant to protect the poor.

Public consensus and political will are of a paramount importance in order to solve the problems, *improve the mechanisms of primary and secondary distribution* with a view to achieving a higher level of social justice. A bold, but not infeasible idea is to change the priorities for public budget fund disbursement set forth in the National Government Budget Act for the respective year by outlining:



- the areas where most funds will be allocated, and
- the groups, the improvement of the quality of life of which, is most important for the state.

A fundamental principle is to support the *right to a minimum income for all, coupled with* the introduction of an adequate scheme of determining it. Special techniques of setting standard budgets, based on the participation of all stakeholders, i.e. those who need such income and are (or could be) its users, are being currently developed. *Standard budgets* are multi functional – poverty assessment, income policy formulation (minimum social standards), poverty prevention (support for banks and households to avoid bad debt), etc.

The drafting and *guaranteeing of minimum social standards* for all governmentally protected payments need to take into consideration the following components: the minimum wage, the minimum pension for length service with duly paid social security contributions and respective old age, the guaranteed minimum income, etc., as well as their updated figures based on the *official poverty line* and the cost of living dynamics. What is methodologically important is also the issue of using the national, and not the harmonized index of consumer prices in the process of planning and the assessment of the social transfers expenses concerning pensions, benefits, compensations. The determining factor in this case is the national consumption pattern (with its specific features), and not the one used to the purpose of comparison only.

The *full ratification of the key international documents*, such as the European Social Charter, Convention 102 of ILO etc., is a necessary condition and an additional mechanism for applying the European social inclusion instruments and policies. The national social security systems should be guaranteed in terms

of universal access and publicly agreed scope, and the development of the three-pillar system of social security coverage should only lead to a better mix of social effectiveness and economic reason. The system of *Laeken indicators*, which forms the basis of the method of coordination between the social systems of the EU member-states, should be fully applied and statistically supported. Such an important indicator as “permanent poverty” has not been monitored by the NSI yet.

*A radical change in the scope of social work* is necessary in order to meet all the emerging needs. There is an understanding in Bulgaria that social work is predominantly about social assistance (material). This is the reason why there has been an increasing need to introduce other areas of social work. This mostly refers to supporting families in crisis, including specific activities to support and protect children in situations of a family crisis. It is necessary to expand the current scope of social work by including activities such as “*crisis intervention*”. This type of social work could start by appointing social workers specializing in crisis intervention at schools. Such changes make it necessary to adequately adapt the duration, content and scope of the social worker’s education.

*Improving the monitoring of poverty and social exclusion* dynamics by employing special methods, which make it possible to involve the poor themselves in the study of poverty. On the one hand, this ensures that they will participate in evaluating the poverty reduction policies and, on the other hand, this approach makes it possible to establish direct contacts between the decision-makers and the poor. In essence, this method results in intensifying the assessment of the policies thus implemented.

In this respect, it will be very useful to introduce the practice of *poverty proofing* for key changes in public policies and legislation. It is of great significance for both poverty and

the development of the country as a whole, to apply such poverty proofing to the system of the European Structural Funds. This would provide additional opportunities for targeted and effective use of the European funds for solving such important national problems such as poverty and social exclusion.

Led by the understanding that companies and enterprises are an integral part of human society, and not simply a component of the economic system, the authors of this report

strongly support the recommendations of the European Commission and the European Economic and Social Council to popularize and *develop corporate social responsibility*. In our opinion, it will unveil new dimensions of social solidarity, open up additional resources for regional municipal and community development, create opportunities for reconciling work and personal life, and this is an important condition for the success of the policies aimed at fighting poverty and social exclusion.

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## Policy Priorities for Social Inclusion in Macedonia

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This policy paper is the result of the regional initiative of the Friedrich Ebert Foundation to engage in and promote a visible social inclusion strategy in South Eastern Europe. The main pillars, which this strategy for sustained social inclusion in the SEE region is based upon, are: education, healthcare, employment and social services. Hence, the national policy paper has adopted these four pillars as the main mechanism for promoting greater social inclusion, and suggests essential priorities in the respective domains, which should serve as guidelines for creating a more inclusive welfare state in Macedonia.

The policy of social inclusion in Macedonia does not enjoy a long tradition, although the persistence of 'old' social problems, such as poverty, low living standards, and marginalization has been the reason for the creation of the first social protection programs in the country. Currently, the Ministry of Labor and Social Policy, within the framework of its program, designed a plan to tackle the problems of the socially excluded individuals (2004), which is focused on four target groups only: (1) drug users and members of their families; (2) street children and their parents; (3) victims of family violence; and (4) homeless people. We believe that this focus should be widened to include other vulnerable categories. However, in a country where there is a trend of a high and persistent unemployment rate, a low level of average salaries, as well as an irregular pattern of payment of wages and salaries, it is difficult to assess the extent of the socially excluded population, especially because in many ways they might represent a

majority group within the overall number of the population in this country.

Therefore, in this policy paper we have tried to focus on priorities in the fields of education, health, employment, and social services, which have a two-dimensional focus, whereby one of the dimensions of these priorities argues and advocates a more universal access to services in these domains, thus benefiting the overall population, while the other is connected with the priorities that will privilege and improve the access to social inclusion of those individuals who are more vulnerable and need additional incentives to engage in and take up the existing educational, health, labor, and social benefits and services, which have been made available for them.

As social inclusion is a multi-faceted phenomenon, it should also pervade other aspects and domains. Thus, the elaborated list of priorities is not exclusive of other options, which should be subject to further consideration, in order to integrate excluded individuals on a broader basis and encourage them to better participate at all levels of society.

### **Education**

Education as a fundamental human right and a key instrument of social and economic development and national prosperity represents a crucial element of any social inclusion strategy. The general aim of the socially inclusive education is to enable all children, young people, and adults, regardless of their ethnic and religious affiliation, sex, social and economic status, place of residence, and personal abilities, to have:

- Equal access to education;
- Equal possibilities for acquiring education of a certain quality standard.

In the Republic of Macedonia there is a wide acceptance of these universal goals on all

levels, and the importance of their realization is emphasized in the strategic documents for the development of education in the country.<sup>11</sup> However, their implementation is facing many challenges, especially regarding children and young people who live in economically underdeveloped areas, in socially vulnerable families, and belong to certain ethnic groups (the Roma population, in particular). One of the main indicators of their educational exclusion is their low level of school attainment, which can be attributed to various reasons: a serious shortage of educational facilities, poor studying conditions, the insufficient amount of funds allocated for public education, their culture and traditions, which ultimately favor informal and home-based education. In the forthcoming period, the Republic of Macedonia should make efforts to gradually overcome these difficulties and to improve the access and quality of educational services for those who are vulnerable, thus aiming to achieve the universal goals of education. We propose the following priorities, upon which the educational inclusion policy in Macedonia should be built:

#### *Improving the Physical Access to Educational Institutions*

In the Republic of Macedonia there is a lack of facilities at all levels of education. Thus, the problem of their accessibility is especially acute at the pre-school level, and at the points of transition from lower primary to upper primary education, and once again at the points of transition from primary to secondary education. In the rural and/ or mountainous areas of the country, where schools are not located in every single village and children live far away from the schools they should attend, the local educational authorities should arrange for local transportation with financial assistance on the part of the state.

#### *Increasing Children Intake in Pre-school Education*

Within the total intake percentage of children (18,67%, State Statistical Office, 2002) enrolled in pre-school education in the Republic of Macedonia, the number of those from disadvantaged groups (from poor areas and families, minority groups, mentally and physically handicapped children, etc.) are the least included in pre-school education and are at the same time the least challenged and prepared for inclusion in the compulsory school system. Therefore, the national social inclusion policy should focus on:

- Enlarging the network of pre-school institutions, especially in the rural areas, which should be financially supported by the state and by the local authorities;
- Raising the awareness of parents and families about the importance and benefits of pre-school education as an instrument for neutralizing cultural disadvantages and providing equal start in elementary education;
- Improving the attractiveness and efficiency of the pre-school educational level by offering different programs (based on local and children's needs) and other organizational forms (such as institutional, extra-institutional and alternative forms of children inclusion). This variety of activities demands a more active participation on the part of local leaders, the business community, and the NGO sector.

#### *Ensuring Compulsory Educational Attainment*

According to the latest amendments to the Laws on Primary and Secondary Education<sup>12</sup>, compulsory education has been extended and now includes both primary and secondary education. The present situation of student enrollment (gross intake in primary ed-

<sup>11</sup> National Program for the Development of Education in the Republic of Macedonia 2005–2015, 2006.

<sup>12</sup> The Official Gazette No. 51/2007, No. 49/2007.

ucation – 97.11%, gross intake in secondary education – 69.5%) and annual student decrease (PE: 1.42%, SE: 2.84%<sup>13</sup>) shows that the largest majority of students leaving compulsory education belongs to the Roma ethnic group and to poor families from the rural and mountainous regions. What should be done to bring these children back into the schools is:

- Continuous local endeavors in educating parents and families and strengthening the sense of individual educational needs through different forms of formal and informal meetings and gatherings. This holds particularly true of small communities, influenced by prejudice and traditionalism, especially as far as the education of female children is concerned;
- Offering more financial benefits to the poor (free meals, books, and school work materials, free or low-priced transportation, subsidies for student accommodation for those living in dormitories outside their place of residence). Ensuring central control over awareness campaigns informing the population about the parents' legal obligations to enroll their children in schools.

#### *Ensuring the Quality of Educational Services*

This priority is a sophisticated instrument for increasing student enrollment at all levels of the educational system, whereas its realization is a two-dimensional task:

- Improving the infrastructural capacities and conditions for school life, especially in rural areas (with school buildings meeting quality standards, with sufficient equipment, books and teaching materials, with sufficient and suitable teaching staff, etc.), which could be done with a more rational use of allocated financial resources;
- Enhancing teaching quality, which re-

quires: strengthening the teacher's role and status (careful selection of candidates, high-standard initial teacher education, centralized control of teachers' accreditation, systematic professional development, competitive salaries, and other professional incentives, benefits for those accepting to work in less developed or underdeveloped regions, etc.);

- Centralized curricula (at all levels, except for the university level) and high-standard textbooks and teaching materials;
- Teaching methodology that promotes thinking abilities of a higher order and stimulates initiative and independent and cooperative life-long learning.

Ensuring quality standards in pre-school, elementary and secondary education should be government responsibility. The state should develop and implement a system of quality assurance and compliance control based on standards that concern each and every issue mentioned above. The higher education institutions, which operate in more competitive conditions, tend to follow the market mechanisms in relation to ensuring high standards, with accompanying state intervention in case of poor performance.

#### *Providing Financial Support to the Poor*

The educational system in the Republic of Macedonia is predominantly a public one. Both primary and the public secondary education are free, even though school achievement on these two levels involves many expenses (such as meals, books, working materials, clothes, etc.), which are not always easy to cover for many students' families. On the other hand, both pre-school and higher education offer fee-based education that is not affordable for socially disadvantaged families. Having in mind the financial and organizational incapacity of the Macedonian state to provide free access to education on all levels

<sup>13</sup> State Statistical Office, 2002/04.



for everyone, financial assistance for the vulnerable categories among children/ students can be provided in form of:

- State support – meant to exempt the poor from the obligation to pay fees, and grant scholarships for talented students. Local community and school support – meant to ensure the transfer of different textbooks for the different school grades at the end of each school year, and extend subsidies covering school meals and accommodation in dormitories;
- Creating a socially inclusive education in the Republic of Macedonia is a long-term and expensive process, which demands strong political will and commitment to education as a high national priority. As a consequence, this requires more investments and more effective and fairer allocation of the available resources. The fact that socially inclusive education is not easy to achieve should not be a reason for denying anyone's right to education and for depriving anyone from the right to access educational services of an equal quality.

### **Healthcare**

The Republic of Macedonia is going through a long, unstable, and painful process of reforming the provision of healthcare services and their respective financing. The health insurance coverage is reportedly close to 100 per cent, the indicators for physical access are impressive, and the basic benefit package is quite broad, covering practically all health-related services. Such a generosity on the part of a publicly financed system is hardly affordable and creates significant inefficiencies; it is ridden by corruption and has to be balanced by expenditure cuts that are affecting both the primary healthcare system and the maintenance of the facilities, which are very important for the poor. The quality of

healthcare has also deteriorated due to poor state of the facilities and the quite outdated equipment, coupled with lack of materials, whereby wages and salaries absorb most of the healthcare budget.

There is evidence from various beneficiary assessments that the availability and the quality of healthcare are inadequate for certain number people who cannot be insured on any basis (around 35,000) and those who cannot afford to pay for drugs, pay for them out of their pocket, or are unable to afford private doctors' fees. Some of the more vulnerable groups in terms of their access to and benefits from the healthcare system include:

a) *Long-term care patients*: the situation is still very substandard especially with respect to the mental health facilities, where, among others, there is the problem of the lack of proper coordination concerning the responsibilities shared between the healthcare and social policy sector;

b) *Elderly patients*: In 2005 the percentage of the population over 65 years of age increased to 11.1%. The majority of the elderly people lack sufficient funds for the proper healthcare they truly need. There are also cases where the family of such patients is unable to provide the necessary care, especially in certain periods of the year. Care is then provided in specialized hospitals providing beds for prolonged stays to elderly patients. So far, only a small number of such homes or healthcare facilities for retired people have become available;

c) *Roma population patients*: In the settlements where the Roma population lives, infrastructure in terms of educational, social and health facilities is insufficient and poor, which adversely impacts the socio-economic and health status of the Roma people at large;

d) *Patients who belong to rural areas population*: Rural units frequently offer poor facilities, lacking basic equipment. This may be



one of the reasons why patients, especially in rural areas, aim to bypass primary healthcare.

e) *Uninsured and redundant workers*, the companies of whom have not been paying any health insurance and social contributions whatsoever.

Having in mind all this, we suggest the following interventions to be implemented, which are capable of tackling the problem of social exclusion and healthcare. To begin with, we suggest that the general model, which could deal with this problem and meet the principles of solidarity, equity, and proper efficiency in the healthcare system in the Republic of Macedonia could be:

- a policy-controlled private delivery in the Primary Healthcare sector with the exception of some preventive and emergency services;
- rationalized and well-managed public hospitals accessible to all citizens;
- enhanced role of the public healthcare services, and
- interventions, accessible health benefit packages, income-related insurance fees, and socially determined co-payment policy.

#### *Policy-Controlled Primary Healthcare*

There should be an emphasis on the enhancement of the Primary Healthcare Services, as this is still the cheapest and most affordable level of services, designed for the provision of comprehensive disease management, which serves as a gate keeper, capable of bringing the adequate healthcare services close to the population groups at risk.

The rationalization of all healthcare facilities and their proper geographical re-distribution, because of the limited resources, has to be much more efficient and capable of significantly improving the infrastructure of facilities, as well as the quality of primary care services in particular, as these are the most accessible healthcare services for all groups of citizens.

The introduction of more productive methods of provider payments (a capitation-based system at the primary care level and an annual global budget allocation and DRGs<sup>14</sup> for inpatient care, based upon performance indicators) – should be further improved. It is a genuine challenge for these changes to be properly implemented, as they could temporarily jeopardize healthcare provision, on one hand, but – on the other – they could also improve the access to the services for some specific target groups of the population. A possible solution to avoid this are targets set out in the new payment models, where special incentives shall be introduced for healthcare work carried out in the country-side, for preventive and health-promotion activities, as well as for rational prescription of drugs and referrals to the upper level of the healthcare system. Furthermore, the combined model of payment through capitation and a fee for services could create more incentives for improved efficiency on this level, which is very important especially for the vulnerable groups of the population.

Some services, such as emergency medical and dental care, emergency home treatment, preventive check-ups of pre-school and school children, as well as some patronage services, should remain within the public domain, especially since those services are more frequently used by the groups at risk.

#### *Well-Managed Hospitals Accessible to All Citizens*

In a strictly social insurance system as the Macedonian healthcare system is, the decision is more likely to be to lay the stress on the rationalization of the hospitals, and on the proper modernization of the selected ones in the process of medical mapping, including the more realistic and productive DRGs payment models and an adequate information system, which has not been established

<sup>14</sup> Grupeve të ngjashme diagnostike.

thus far. An integrated approach to service delivery with close cooperation between the primary, secondary and tertiary-level services is also missing (which encumbers the proper disease management in the country).

The rational prescription of drugs, also coupled with an adequate access to the essential drugs (especially those from the positive medication list), is among the crucial conditions that can impact the proper access to healthcare services, especially by the socially excluded. The newly privatized system of the pharmacies has started to reveal the risk of jeopardizing the access to essential drugs, especially for the vulnerable groups, since some of the pharmacy owners have started to practice an over-zealous market approach rather than a social one.

The current system has also created some shortages in the area of the long term healthcare services and the specialized homes and facilities for the elderly. Taking into account the size of the demand, public-private partnerships should be set up to the purpose of investing in such specialized facilities and services, as well as in the proper conversion of the surplus beds in hospitals, which would be capable of providing these specific long term services.

All these processes should be accelerated. The state should increase the empowerment of community groups; create opportunities for citizens to express their needs; deliver services that promote the social inclusion of vulnerable groups, the healthcare reforms aimed at improving the capacity and efficiency of the primary healthcare level, reducing at the same time the costs of hospital treatment. On the other hand, local communities should display greater interest in the possibilities to invest (jointly with the central government) in healthcare facilities, especially at the level of primary healthcare provision for the benefit of all their citizens.

### *Enhancing the Role of the Public Health Services and Interventions*

Improved health promotion and other public health interventions and programs in the country supported both by the central and local community's budgets, as well as by some international agencies, could definitely improve the access to proper health-care services of the population groups at risk, and especially with a view to the prevention of specific diseases, which are generally linked with low economic status or insufficient access to healthcare services.

### *Reforms in the Health Insurance Policy – an Accessible Benefit Package and Income Related Insurance, as well as a Socially Determined Co-payment Policy*

The current benefit package is considered to be both very comprehensive and very costly. Aiming to keep the emphasis on public services and universal access, apart from the parallel introduction of privatization, the current revision process should design an accessible but also affordable type of package (for the Health Insurance Fund - HIF<sup>15</sup>) or even several possible packages. The essential package of services should be accessible for all citizens (covering life-threatening cases or emergencies, but it should also include preventive check-ups, immunization, coverage of a portion of the positive drug list, and the treatment of a range of communicable diseases). It seems that there is a lack of sufficient funds for a broader list of services, which the public expects to find included in the package.

The process of changes and rationalizations in the co-payment policy, which contributes to the financial sustainability of the basic benefits package, should be accomplished without endangering the accessibil-

<sup>15</sup> HIF – Health Insurance Fund.

ity to benefits by the vulnerable population groups. It seems that imposing a flat co-payment rate per services and prescriptions and including a safety-net for the poor; or a lower co-payment rate for the poor, could be a proper solution for this type of social exclusion. In such a case, people will no longer depend on the changing pricing of medication on the positive list of drugs, while the co-payment will be fairer, as it will not discriminate against people who need more expensive drug therapies.

The following proposals are concrete examples of the possible improvements to the co-payment policy, which can currently get the necessary support:

Children between 1 and 5 years of age, and families, the income of which is less than 60% of the average wage, should be exempted from co-payments. At the same time, children between the ages of 6 and 18 should be exempted from co-payments for selected services only. However, care should be taken when evaluating a family's social status related to their income, because there currently seems to be insufficient evidence in the system about family earnings, especially as far as the incomes of the self-employed and the contractors are concerned.

The forthcoming Conditional Cash Transfer Program, which is scheduled to be introduced by the Government with the assistance of the World Bank, can considerably improve the proper use of healthcare services, especially among the vulnerable groups (subsidizing the regular preventive checkups of the children and the cancer screening programs among women). But this should be introduced only as a complementary program to the social assistance scheme, which has been in existence for some time now.

## **Employment**

In a country where there is a persistently high unemployment rate (36.3%<sup>16</sup>), the urgency to make the employment policy more responsive and effective is of a paramount importance. When considering employment priorities, one also has to take into account the other unfavorable labor market indicators, such as: the significant level of undeclared work, which according to some calculations represents an estimated 33–37% of the GDP (ETF, 2006); the low-skilled labor force, as approximately two out of every five individuals have low qualifications (ISCED 0–2); the higher unemployment rates among vulnerable ethnic groups, such as the Roma population – 78.5%<sup>17</sup>, the lower labor-market participation rates among women, especially those from less represented ethnic communities, such as Turks and Albanians, etc. Although the improvement of these unfavorable labor-force indicators depends on a more coherent macro-economic policy, as well as on a keener economic growth rate, we nonetheless focus here on those employment policy priorities, which are dependent to a higher extent on the institutional, administrative, and legislative management of employment policies.

### *Increasing the Scope of the Formal Job Market*

Although the grey or shadow market in Macedonia is not officially estimated, it is evident nonetheless that it is of a considerable size. Any dealing with the problem of the existing grey market, however, has a direct impact on the living conditions of mainly the most vulnerable groups and categories in society, such as those without sufficient education, the elderly, those on low wages, as well as the socially weak ethnic groups. In the absence

<sup>16</sup> In 2006, according to LFS, among the 15–64 year olds.

<sup>17</sup> Data from the National Census in 2002.

of a more vigorous economic growth rate, it is easy to understand why all governments in Macedonia have silently accepted the existence of the grey market so far, thus preventing sizeable social unrests. However, this policy only proved to be a catalyst for greater social tensions and increased inequalities and uncertainties among the most vulnerable groups of the population. If the formalization of the grey market could be done by way of a consensus between all political parties, including the participation of all stakeholders in the labor market, and if this could also indicate that such a consensus marks a high and long-term priority for the country, then this strategy can contribute to more benefits than costs for both the state and the individual. The increased capacity of the state (or municipalities) to tax can increase the public budget, and hence create more opportunities either for new public jobs or for support to those, who are outside the labor market, through the social protection scheme. The individuals will also have increased security not only in the present condition, but also in terms of their future incomes, such as pensions, unemployment insurance, etc.

However, an effective strategy towards the formalization of the grey market should not forget three important elements or steps, namely:

- (1) to undertake a comprehensive study, such as once previously made, about the precise systematization of all categories of jobs offered on the grey market; to make a characteristics of the 'formally unemployed' according to: their position in the labor market, their educational attainment levels, their ethnicity, place of residence, etc.;
- (2) to implement an incremental approach towards registering the existing 'grey' businesses and jobs on the formal mar-

ket, envisaging phases necessary for the 'new' labor market entrant to cope with the financial burdens involved, i.e. the real costs of the formal market. This can include: phased payments, loans at 'state-fixed' rates, subsidized grants, etc.;

- (3) the regular 'formal' business that already exist, should not be left disadvantaged and 'stigmatized', because such businesses are 'regular payers', without any compensation whatsoever. In order to compliment their regular tax-payments, cost-benefit actions should be taken to 'reward' them in a way that will only be complementary to the overall strategy for the job market formalization.

Another important aspect of increasing the scope of the formal job market includes the decentralization process, especially in local municipalities, where the less represented ethnic communities are actually the majority (i.e. Roma people in Shuto Orizari, Albanians in the local municipalities of Western Macedonia, etc.). According to statistical information (the 2002 Census), the highest unemployment rates are observed among the Roma population, amounting to 78.5%, followed by the Albanians with 61.2%. On the other hand, the participation of ethnic communities, as well as of low-skilled workers, in the informal economy is quite high, which can be speculated to result from the limited employment opportunities in the public administration in the past, as well as from the lack of trust among these communities in the public (employment and welfare) system. Therefore, if the legalization of businesses on the local level depends on the increased budgets of the local municipalities (as provided for by law), then it might be expected that representatives of these ethnic communities might feel more attracted to the success of this strategy, since they might benefit more from the local budget programs.

### *A Universal Access to the Services Offered By the Employment Agency*

Although the Agency for Employment (EA), as well as the Centers for Employment on the municipal level, grant access to benefits and services for the unemployed on equal grounds, there still seems to be some institutional bottleneck, which prevents some of the most vulnerable groups from making use of these services.

For example, some of the problems associated with the access to unemployment benefits arise from the need to prove ownership of land, required by the EA to determine whether the potential unemployment benefit recipients have arable land, which can be used for economic purposes. This is required from those who are registered without any educational certificate. Since many of the unemployed (mainly Roma and Albanian) do not have settled property rights, they cannot fulfill this criterion and are prevented from fully availing of their social rights. Also, certain professions, such as farmers for instance, are not included in the unemployment insurance lists and thus cannot benefit from this arrangement.

Finally, the redundant workers are not given access to unemployment benefits until the process of enterprise liquidation is completed. However, the Agency should assess whether the workers have paid contributions in the past and on that basis should allow them the eligibility to unemployment rights.

Also, the current offer of training and re-training courses through the Agency for Employment is focused only on those registered unemployed who have some basic educational qualification (at least at primary school level). However, according to the Annual Report of the Employment Agency (2006), 51.3% of the unemployed (out of the overall number of all registered unemployed) are without any qualification whatsoever (only a small per-

centage of them are semi-qualified). Also, the exact number of the unemployed who have not even completed primary school is unclear. This fact is important to know, as they seem to be excluded from any services offered by the employment and social agencies.

It seems important that the Agency for Employment should try to locate all these problematic areas that prevent access to unemployment services and that reduce the effectiveness and take up of the training courses on offer. The criteria for registering the unemployed, as well as the criteria for receiving unemployment services (not monetary benefits), should not be connected so much with rights but rather to the actual needs of the unemployed persons. The inclusion of particular categories of laborers into the unemployment insurance scheme, such as farmers for instance, should also be taken into consideration. There should be a clear desegregation between the unemployment services and the other rights stemming from the social security system (i.e. the 'blue coupons' for health insurance currently issued by the Agency for all the registered unemployed). This desegregation should lead towards a greater focus on the priority needs of the unemployed, turning the unemployment register into a relevant data base at the same time, rather than leaving it in its current state of being merely a fictional list of people who do not really look for employment.

### *A Systematic Assessment of the Labor Market Needs for Skills and Professions*

There is a lack of a reliable analysis regarding the skills needed on the labor market in the country. The labor market demand and the information about the actually needed occupations are not part and parcel of the overall employment policy. The Government should support the opening of an independent institution for labor market analysis, which could



make ongoing and up-to-date assessments and could also offer forecasts for the needed professions and skills. This should also contribute to the re-orientation of the educational curricula and programs at the secondary, vocational and tertiary educational level in Macedonia, as currently they do not offer courses, which are based on the current market needs, either.

#### *An Effective Social Partners Inclusion in the Employment Policy Elaboration*

Notwithstanding the problems of trade unions and their re-organization (into smaller, sectoral and/or independent organizational units), still they should become more visible in the process of the country's social policy making. Currently, there is a lack of cooperation and – more importantly – of any acknowledgment of many trade union initiatives, and this is a fact, which contributes to the creation of isolated social policies that lack support by its main beneficiaries. The Socio-Economic Council, which functions as tri-partite body involving representatives of the Government, the trade unions and the employers' association, should be made more functional and should be consulted in relation to all social policy initiatives and reforms. This Council should have a more visible and precise agenda, with more regular meetings, while their resolutions and proposals should be elaborated more publicly, and tabled either at Parliament in general, or before other parliamentary committees (or sub-groups, etc.).

Having in mind the increased influence of the non-governmental sector in the provision of social services, a similar body should be created with representatives of both the NGO sector (working on different social policy domains and originating from different geographical locations) and the governmental institutions (those from the Ministry of Labor and Social Policy, but also from the Centers of

Social Work (CSW), the Employment Agency, the Health Protection Institute, etc.).

#### *Improved Coordination between the Institutions Responsible for Administering the Employment Policy*

Ineffective coordination among agencies and organizations working in the social welfare field must be strengthened in order to improve not only the holistic approach to policy creation, but also to avoid duplications and the introduction of unnecessary criteria for social welfare benefit eligibility. The coordination between the EA (the Employment Agency and its Centers for Employment), the CSW (Centers for Social Work), the revenue offices, and the cadastre (land registry) offices must be effected on a systematic level, so as to remedy the problems of requiring unnecessary (or duplicate) documents, assuring and improving at the same time the efficiency of delivering the services provided by these institutions. Such coordination would be beneficial for the clients, while such inter-institutional cooperation would reduce the time and costs spent on obtaining the needed service.

#### **Social Services and Benefits**

The system of social protection in Macedonia offers services and benefits to individuals, families and groups of citizens when they are affected by particular social risk or social problems. Hence, the main group of beneficiaries of the social protection system include: the elderly, unemployed people and people on low incomes, disabled people, children without parents and parental care, children who have become victims of violence, children displaying anti-social behavior, individuals in conflict with law, victims of family violence, substance abusers, dysfunctional families, as well as divorced parents with children. Although the legislative



scope of eligible beneficiaries implies quite a universal access to such services, the recent trend towards an increased focus on means-testing and conditionality restricts and makes the access to these benefits pre-conditioned on a variety of criteria. We believe that social services and benefits should not only serve as a safety net and be applauded on the merit of their efficiency and good targeting, but should also provide basic support, which will improve the inclusion of the vulnerable groups in society. In that respect, we propose a few priorities, which may improve the current functioning and supply of social service and benefits.

#### *Increased Emphasis on a Needs-Based Assessment*

Contrary to the current trend of rights-based and means-testing approach, the social welfare system should also enable access to services and benefits according to the applicant's needs. The focus on needs might provide the desired level of out-reach to categories of people who may possess certain capacities or means and/or resources, but who nonetheless are deprived of access to services and benefits because of other reasons, such as: cultural factors, stigmatization, language barriers, and remote location. The needs-based assessment should especially be emphasized in situations when negative trends such as high unemployment, irregular payment of salaries, insolvency of social insurance funds, as well as enterprise insolvency are of a long-term nature. In this way, social services and benefits will provide greater access and can serve as a support mechanism for greater social inclusion of the vulnerable social groups, ensuring at the same time greater social cohesion among those living in regions of different socio-economic development.

#### *Assessment and Evaluation of the Impact of Conditional Transfers before Their Actual Implementation*

The tendency towards introducing more rigid criteria regarding the access to social services and benefits should be based on an ex-ante systematic assessment. The implementation of conditional transfers should not only be determined by short-term economic goals, but should also involve an analysis of the potential counter-effects both for the social protection system and for the individuals from a long-term point of view. Conditioning social assistance on the take-up of work, or conditioning the social benefits on the beneficiary's behavior (e.g. regular health check-ups, regular education attainment), might prove counter-effective, as more people might lose the only means of welfare support and might end up again in dire need of some other (probably more expensive) protection and/or social security transfer from the state.

#### *Decentralization of Social Services*

Locally provided and locally funded social services are more meaningful and have a greater effect both on the local community and the local municipality itself. The Government should reduce its influence (in terms of provision and maintenance) on the social services in municipalities, where resources are available and there is a capacity for the individual functioning of such services. Current activities focused on opening public kitchens by the Ministry of Labor and Social Policy might hinder other vital resources and actors in the local municipalities capable of sponsoring and sustaining precisely these local services. Therefore, it is of a vital importance for the Government to continue the decentralization of social services without interfering in and duplicating social service provision.

*Increase and Improvement of the Capacities for Delivering Social Services*

The Centers of Social Work in their capacity of local providers of social services should be equipped with more personnel, especially in local municipalities where the number of beneficiaries is higher. It is also very important that every local municipality should employ social workers according to the size of its population, also taking into account other characteristics, such as linguistic and cultural traits, etc.). The Centers of Social Work should be adequately equipped to deal with both the administration of social transfers and the social service provision itself. At the same time, it is additionally imperative that they should focus on the training of the personnel engaged in social service provision, which can enable them to maintain continuing contact with the novelties in their profession and get familiar with new methods and techniques of work. Finally, the promotion to the higher professional ranks should take into account

their level of educational qualifications, which can serve as a better incentive for the social service staff to engage in training courses.

*Introduction of Standards for Licensing and Accreditation*

A well-developed and organized system of licensing and accreditation should be introduced, to serve as a guarantee for higher quality and increased competences on the part of social service providers. This would be beneficial not only for the public social services, but also for other non-governmental and private initiatives in the field of social welfare. This system should provide practice guidelines, which will prevent improvisations and ad-hoc decisions in social service delivery. The establishment of this system should be undertaken and administered by educational institutions in the social welfare field, as well as by associations of social workers, thus guaranteeing the impact of both science and practice in the establishment of quality standards and mechanisms of compliance and control.

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## Policy Priorities for Social Inclusion in Romania

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### ***Our Message in a Nutshell***

#### *The Reality of Social Exclusion in Romania*

Today, large parts of the Romanian people do not benefit from the country's growing prosperity. They continue to live in poverty or close to poverty. Their income does not allow them to buy those consumer goods for themselves and their families, which for many of their luckier compatriots have become the normal part of a modest standard of living. When they fall ill, they often receive neither adequate medical treatment, nor the medication they need. Many of them, especially when they grow old, suffer unnecessarily from diseases that modern medical care would be able to cure or to mitigate. Many decay prematurely and die prematurely. Children from poor families are very unlikely to get the education that would provide them with good chances on the labor market. Poverty in Romania is hereditary.

During the last decade of the communist regime, as well as during the first years after the revolution, the bulk of the population was poor, even though there were some categories of people who were faring especially badly off. Now, the country is experiencing a process of a growing social polarization, or in other words, many Romanians have become socially excluded.

*The Roots of the Problem Lie in:  
the Lack of "Decently" Remunerated Jobs*

Socially excluded are first of all those who do not have an income that would buy them and

their families a standard of living in line with the national benchmark. The principal reason for insufficient income is that they do not find a sufficiently well-paying job on the labor market. Here, two factors come together:

- The national labor market does not offer "decently" paying jobs for all adult Romanians;
- Many Romanians are ill prepared to qualify for a "decently" paying job.

This leads straightforward to the first policy conclusion: *all young people must receive an education that qualifies them for "decently" paying jobs.* This is a very demanding policy task, and yet it is a feasible one. We will expand on it later on.

However, in present-day Romania, a good education for everyone would not be sufficient to eliminate social exclusion, not even for the newcomers to the labor market. This is because the labor market does not offer (yet) a sufficient number of decently remunerable jobs, and the economy is not sufficiently developed yet to provide for this. The statement holds true even though there are increasing shortages of manpower in some economic branches and some regions of the country (most of all in cities such as Bucharest or Timisoara) and despite the fact that some companies have taken to hiring cheap foreign workers (the Chinese garment industry workers of Buzau for instance). For a policy aiming at social inclusion, the implications are twofold:

- To promote and facilitate the emergence of additional decently paying jobs;
- To provide for ways of *bringing out of poverty those people who have no chance of earning an adequate income on the labor market.*

#### *The Need for Public Goods*

We will elaborate on both points. But before that it is important to focus attention on an

additional dimension of social exclusion, one that is of the utmost policy relevance. Even if we assume that full employment could be attained at a “decent” level of wages, there still would be essential elements of social inclusion, i.e. of acceptable life prospects for all citizens, which remain beyond the scope of the purchasing power that low incomes could possibly afford (something one witnesses in the affluent countries of the West as well). These essentials are:

- good education, including university level degrees;
- state-of-the-art healthcare, if need be.

The two points define the central tasks of any policy of social inclusion, regardless of the actual situation observed on the labor market. *A booming economy with high demand for manpower is the main lever to lift the poor out of poverty and to connect them with the country’s mainstream consumption standards. But without a subsidized supply of good education and good healthcare services, the low income groups would remain socially excluded.* On the other hand, as long as full employment at “acceptable” wages is not yet in sight – as the case in Romania currently is – access to good education and healthcare makes almost *all* the difference between social exclusion and feasible social inclusion. It is the access to these two sectors that constitutes the backbone of *any* strategy of social inclusion.

#### *Cash Support for the Poor: Necessary, but Limited*

This is the backbone, but it is far from everything. Two more considerations have to be taken into account.

People do not only need healthcare and education. They also need food, shelter, clothing, energy for heating and cooking, and other things that belong to the minimum standard of living nowadays. An effective

policy of social inclusion would have to make sure that every citizen could avail of that minimum standard. If the individual or the family income is below the minimum, then the community must lend support – in the form of cash payments or by providing the necessary goods and services. This is what underlies the minimum-income guarantee, which is part and parcel of the Romanian welfare state.

And yet it must be said right away that a minimum-income scheme, under the present economic conditions, *cannot* be the major vehicle of social inclusion. The reason why is that the gap between needs and realistically available resources is simply too big. Income support for the poor is a means to *help* prevent outright misery, but by itself it is incapable of making the difference between social exclusion and inclusion. Frankly speaking, the recipients of the minimum-income type of welfare support are truly socially excluded.

#### *Special Attention for Special Cases*

There is a stratum of socially excluded people who suffer from much more than merely the lack of income. They have lost – often for very particular biographic reasons – the link with mainstream life, including its opportunities to earn an income. These people need special attention beyond good healthcare schemes, minimum income programs, and the like. They – and especially their children – must be actively helped to make use of the opportunities, which a universalistic social inclusion policy of the type we advocate here might (or should!) supply.

Having said this, we want to emphasize, however, that the problem of social exclusion in Romania is *not* primarily one of unlucky biographies (characterized by family break-ups, drug addiction, illness, mental handicaps, and the like). *The core of the problem is the lack of income opportunities combined with an insufficient supply of public goods.*



*And the paramount task of a policy designed to eradicate social exclusion in Romania is to ensure a truly universal and egalitarian supply of essential public goods or to make sure that all citizens have access to these essentials by some other means. We will discuss these means below.*

#### *Resources, Priorities and Political Determination*

For the time being, it is impossible to make sure that every Romanian family has a satisfying cash income. As already said, for this the economy is developed quite insufficiently, and the state is too poor to make up for the lack of acceptable salaries. But the state should have the means to ensure high quality healthcare for every citizen and high quality education for every child and young person at the same time.

- In part, this is a matter of public money and requires that public spending priorities be changed;
- In part, it is a matter of private money and requires schemes capable of tapping higher incomes more effectively;
- In part, it is a matter of appropriate regulations and their effective enforcement.

The resource, which is most needed for all three aspects mentioned above, is political determination, based on:

- the adoption of social inclusion as a priority goal of the government;
- a clear vision as to the way to proceed in order to achieve the goal;
- the courage to confront resistance (which any strategy of social inclusion will inevitably encounter);
- the endurance and political skill to overcome such resistance.

*The ultimate answer to the question of why we witness large-scale social exclusion in Romania is: because the political determination to*

*fight it is still lacking.* This is not unique for Romania. We find similar situations in most of the post-communist countries throughout Europe. From an analyst's point of view, one can explain very well why it is like that. But our paper advances the proposition that it does not *have* to be like that. Eliminating social exclusion under the current economic conditions is a demanding program. But we maintain that *it can be done within a relatively short period of time if politicians would like to see it happen.*

Roughly outlined, our strategy proposal requires that:

1. teachers' salaries be raised significantly;
2. teachers should be employed and controlled by the central government, rather than the lower levels of local government;
3. the obligation to attend school for at least ten years be enforced without exception;
4. high-quality pre-schooling be offered free of charge to every Romanian child older than 4 years of age;
5. private tutoring by teachers should lead to dismissal from school teaching positions;
6. health insurance be mandatory for every citizen (not just for the formally employed ones);
7. mandatory health insurance should be paid for treatment by private providers (doctors, hospitals, pharmacies, laboratories, etc.), based on contracts negotiated with them;
8. mandatory health insurance should cover all kinds of treatment necessary for effective healing, recovery, and prevention;
9. health insurers should finance their expenditures by contributions levied on the insured proportionately to their income;
10. the government should subsidize the poorest citizens' insurance fees;
11. pressure should be exerted for all wages to rise along with the average productivity growth;

12. public housing schemes should facilitate internal migration from low-growth to high-growth regions;
13. social security be detached from the labor contract and made a universal citizens' insurance (financed in part by contributions, in part out of the government budget, which would require higher taxes, preferentially VAT and excise taxes).

### **Talking About the Elimination of Social Exclusion**

#### *Social Inclusion Understood as a Standard of Living in Line with the Country's Economic Capacities*

When talking about "social inclusion" and "social exclusion", we focus on the material aspects of these concepts, i.e. an individual's standard of living in comparison with that of his/ her compatriots. From this point of view, socially excluded are those who lack access to goods and services considered to be essential for a "decent" standard of living in accordance with the national mainstream. Our concept of social exclusion is slightly different from the concept of poverty. The latter refers to an individual's or a household's real income in comparison with the national average. In turn, the concept of social exclusion, in the way we use it here, makes a distinction between the various elements of "real income". We consider some of these elements as "essential", others we do not. Those who enjoy the "essentials" are considered to be "socially included" even though they might be "poor" in terms of comparative real income. On the other hand, people whose real income would not qualify them as "poor" might be socially excluded.

This distinction between poverty and social exclusion is important for our policy recommendations. We do not see a feasible way of eradicating poverty in Romania within a

few years. But we claim that adequate policies can nonetheless eliminate social exclusion. In fact, our recommendations aim at social inclusion in the context of unavoidable wide-spread poverty.

We are aware that there are other, non-material, dimensions to social exclusion. We have neglected them here in order to focus on a political agenda that is highly relevant, even though it is certainly not comprehensive. In other words, our policy objective of material social inclusion is limited, but it is important and – despite its limitations – quite demanding. Should it be achieved, this would bring about a tremendous success. On the other hand, the attempt to tackle all aspects of social exclusion in a comprehensive strategy all at once could easily divert energy and resources from achievable priority goals, replacing them by an "eternal" agenda.

#### *The Need for Priorities*

Our proposal is about priorities. We say that governments should concentrate their efforts on a few policy fields which, under the given circumstances, could yield the highest value added in terms of social inclusion. Our selection of priorities is based on an assessment of what *cannot* be achieved in the foreseeable future, however desirable it may appear to be. It is unrealistic to expect – from a short-range point of view – that all working-age adults would earn an income that could allow them to buy all those essential goods and services on the market, which eventually make the difference between social exclusion and inclusion.

In addition, the Romanian state will be unable to supplement low incomes with sufficient public money to overcome the existing large-scale social exclusion.

To fight social exclusion in earnest implies to concentrate on what can be done and achieved, in order to produce significant ef-

fects. Policy priorities should not only be selected, but they must be pursued with determination as well, coupled with a commitment to bring about a definite success, which goes beyond the effort to merely outline an area of attention. *We approach the pursuit of social inclusion as a battle to be won, not as an eternal construction site.*

#### *Proactive Policies and Policies Targeted at Excluded Groups*

Policies against social exclusion can aim at generating a situation, which leaves nobody excluded. We might call them proactive policies. And they can target those who *are* socially excluded, trying to get them out of the situation of social exclusion. Proactive policies are much more important in the endeavor to arrive at a socially inclusive society. If successful, they do away once and for all with large parts of social exclusion situations. By eliminating important mechanisms of social exclusion, they prevent the problems from re-emerging on a continuous basis. Thus, they will obliterate, or at least reduce, the need for targeted policies.

However, the present reality in Romania is characterized by the existence of sizeable groups of socially excluded people who are beyond the reach of proactive universal policies. A strategy of social inclusion that deserves such a name cannot possibly neglect them. It must devise ways and means that help underprivileged people to become included (or re-included). These ways and means will have to be rather specific, i.e. related to the particular situation, in which the target group finds itself at present. Addressing only the mechanisms that have plunged it into this situation will prove insufficient.

## **Education**

### *Why education is a priority for social inclusion*

Access to *good* education for *all* children and youngsters, including those from poor families, from remote rural areas, and of Roma origin, must be a priority for any strategy of social inclusion meant to be implemented in Romania. Good education is:

- *A key to a decent income:* Education is the key to a person's chances of earning a decent income in the market. Disregarding individual exceptions, it is the only way to overcome a child's disadvantages of having been given birth in a poor/ excluded family. A society that has a highly unequal distribution of income and wealth has to emphasize even more on the equality of *chances* that comes with universal access to good education;
- *It is economically feasible:* Good education for all is perfectly feasible even for very poor countries. There is no economic reason whatsoever, which would make it unattainable. It is more a matter of political will;
- *Education in Romania is currently in decay:* From the communist past the country has inherited a universalistic, socially inclusive educational system – as deficient and biased as it was. Nowadays, however, increasingly larger parts of the young generation can no longer take good education for granted. It takes a decisive political effort to turn (once again) the notion of universal good education into a reality;
- *Education is the key to economic development:* Education is not only the key to a young individual's life chances. It is also the key to the national economic development. Universal access to good education yields a double dividend: it reduces social exclusion and increases national prosperity.

*Six Basic Requirements*

A state committed to securing universal good education must:

1. make access to all schools providing education up to the level of high school or to a secondary education degree physically available throughout the country;
2. make sure that no school offers education below a certain quality standard;
3. make sure that all children from the age of 6 to the age of 16 attend school on a mandatory basis;
4. make sure that the learning disadvantages that originate from certain family backgrounds are eliminated as much as possible, or in other words, that all children and youngsters have equal chances at school in line with their biological endowments;
5. make sure that everybody with good school grades can advance to higher education, independent of family income or background;
6. make sure that high-standard university education is available to all those who qualify for enrollment on the basis of their intellectual capacity and scholastic aptitude.

*Ensuring Physical Access*

Well-equipped and sufficiently well-staffed schools must be available throughout the country, so that all children and youngsters, wherever they live, can attend them. Where efficiency considerations stipulate the concentration of schooling in a limited number of towns and villages, adequate transport facilities must be made available to those children who live too far away from such school centers.

*Ensuring Quality: the Importance of Central Control and Competitive Salaries*

Ensuring high quality of teaching throughout the country requires:

- good teachers;
- good didactics and
- good curricula.

Providing good teachers requires first of all, that capable individuals be attracted to the teaching profession. This also requires that teachers get a good training in their profession and that they are then obliged to pass high-standard exams before obtaining permission to teach. Finally it requires that the accredited teachers be made available to *all* schools throughout the country.

Three things are crucial for the universal availability of good teaching personnel:

- competitive salaries and other professional incentives;
- centralized control of teachers' training, accreditation and an ongoing performance monitoring;
- centralized assignment of teachers to the schools throughout the country.

*Teachers should be employed by the state, not by the local authorities.* In countries characterized by a large gap between urban and rural living conditions, and between the revenues of rich and poor municipalities or counties, these conditions cannot be met, if town-hall or county administrations act in the capacity of teacher employers. The teaching personnel must be employed by the central government or at least by a larger regional authority with control over a good mix of urban and rural territories and with sufficient revenues to pay adequate salaries.

Furthermore, *the ultimate choice of a school cannot be left to the individual teacher.* A mandatory assignment procedure is needed, similar to the one in a country's diplomatic or military services. This does not necessarily have to exclude the option of the geographic preferences of senior teachers being taken into consideration as far as possible. Western countries such as France, Germany, Austria or

Belgium have preserved their rights to assign teachers to places where they are needed. The needs of the national educational system must take precedence. This is an elementary function of a modern state and has nothing to do with a relapse into old authoritarian patterns. The wide-spread resistance against such a re-assertion of state rights points to a general weakness of post-communist Romania, where the state has become rather a powerless agent of the public interest – which has a lot to do with the fact that the state has been “hijacked” to some extent by the political elites to serve their own private interests.

A good education for every child implies that *teachers should dedicate their energy entirely and only to public teaching* (for which they have to get an adequately pay) and is not reserved for those pupils, the parents of whom pay privately to the teacher. This wide-spread practice must be unconditionally outlawed. Teachers who do it should be dismissed from the public school service. The same should apply to blunter forms of corruption (good grades for money). Corruption control at schools would require a special centralized state agency that reports directly to the minister of education and the prime minister (who consider that public education is a top national priority, at least as important as the NATO summit or the East-West motorway).

As far as didactics and curricula are concerned, these, too, must be subject to standards that are issued and ensured by a central school authority, which is also in charge with the monitoring of their ongoing compliance. From the point of view of human-capital formation and less from the point of view of social inclusion, it is highly desirable that mandatory curricula emphasize on the intellectual/ mental capabilities of schoolchildren, such as independent thinking, problem-solving, and initiative.

### *Ensuring Universal Attendance of School: Enforcement, if Necessary*

If education is to be a mechanism of social inclusion, not exclusion, it cannot simply be an offer. It has to be a “must” for all children and youngsters. This implies that the choice between school attendance or not cannot be left to the parents, who, for whatever good or not so good reasons, might opt for not sending their kids to school. Children’s rights to be prepared well for their adult life are to be valued higher than parents’ rights to have different opinions. Here again, the rights of the state as the “agent of public interest” should take precedence.

In enforcing the obligation to attend school, positive persuasion is to be preferred (e.g. through free meals at school), but coercion must be applied as “*ultima ratio*” whenever persuasion fails.

Needless to say, if school attendance up to the tenth grade is a universal obligation, it must be financially affordable to the poor as well. This implies that books and other expensive school materials should be made available to the children from poor families for free. This, too, has been a constant common practice in West European countries.

### *Neutralizing Milieu Disadvantages: Universal Pre-schooling*

It is well known that children who are not challenged intellectually at home from an early age on do significantly worse at school than others. They will not have the same chances later in life as their peers from more education-friendly backgrounds. A policy of social inclusion should neutralize this disadvantage as much as possible:

- by providing pre-schooling throughout the country, including the rural areas, and
- by having children attend school all day long, not just on half-a-day basis, combining lessons with supervised individual and group work.



The countries that score best in the famous PISA study do just that.

#### *Free Education Versus Tuition Fees Plus Subsidies for the Poor*

The requirements concerning a socially inclusive policy of education are relatively straightforward. They do not leave much room for strategic choices. But with regard to two issues, different options do exist. One of them refers to the issue of free education vs. tuition fees plus subsidies for the poor.

While there is overwhelming support for the idea that primary education should be a public good, made available for free to all the children from the corresponding age bracket, things are different with regard to:

- high-schools (secondary schools);
- universities (higher schools);
- pre-schooling facilities (kindergartens).

All these can be offered for free to all children or youngsters from the corresponding age bracket. Or else, fees can be charged, while those, who are considered too poor to pay them, shall receive subsidies of one sort or another that enable them to attend such educational establishments.

The option of treating education on all the three levels mentioned above as a “public good”, which is to be offered universally free of charge, has a clear advantage as far as social inclusion is concerned. Universal free access signals a civic right that leaves no room for discrimination between those who can pay and those who cannot. But non-discrimination hinges on the condition that the quality of public education is not inferior to that offered by private education. Meeting this criterion might require a considerable financial and organizational effort on the part of the state. Therefore, the fees-cum-subsidies option has the advantage of making the required resources for a universally good education on all three levels more

easily available. It has the disadvantage that it requires a potentially cumbersome means-testing process.

The fees-plus-subsidies approach can be applied to a system of exclusively or overwhelmingly public education. In this case, the simplest way of subsidizing the poor is to exempt them from the obligation to pay fees. The approach can also be applied to private education. Subsidies to the poor must then take the form of vouchers that buy them such private services.

#### *Government-enforced vs. Market-enforced Quality Standards*

The simplest way of ensuring universal good quality education seems as follows: the government as the agency responsible for the common good sets the respective standards. But this requires a functioning and impartial government that attributes a high priority to education. Another way to enforce high standards is to use the market mechanism. You need a (non-governmental) rating agency, which publishes its findings, plus the provision for a free choice of schools. The poor performers would then be punished by the clients who abandon them. They could, in addition, be punished by the state, which is entitled to reduce the salary premiums for the managers and the teaching staff of the poorly performing educational establishments.

The rating approach to ensuring high standards might work most easily for universities. On the other educational levels, it can work if there is a sufficient private supply of educational services that can accommodate the clients who abandon the poor performers. This is probably quite unrealistic for the country-side. Of course, such an approach could only be compatible with a socially inclusive education, if the poor are given vouchers to attend the highly rated educational establishments.



*Most Important: Top Priority for Education*

A socially inclusive educational system is not to be had cheaply, because:

- teachers have to be paid relatively well;
- schools have to be equipped well;
- pre-schooling facilities have to be set up and staffed throughout the country;
- all-day schools require more (well-paid) teachers than half-a-day schools;
- even if extensive use is made of tuition fees, subsidies to the poor will still have to be publicly funded.

But in spite of all this, neither Romania's still rather low per-capita income, nor the limited capacity of the Romanian state to collect taxes, is a valid excuse for the absence of a socially inclusive education. Financing such an educational system is not a matter of availability of resources, but of the priorities of resource allocation. In fact, the key to a socially inclusive educational system is the priority given to it by the political decision-making institutions. Should politics assign this priority, the result would be as good as assured. All the technical issues that can and must be raised with regard to the structure of the educational system and the modes of paying for it are just that: technical issues.

**Healthcare***Why Healthcare Is a Priority for Social Inclusion*

Access to adequate healthcare for *all* citizens, rich and poor, city and country folks, is a priority for any strategy of social inclusion in Romania, and there are three reasons that underlie this priority:

*Human rights:* From a legally normative point of view, nobody should be denied the possibilities, which state-of-the-art medicine can provide to fend off illness and to restore health in case of illness. Access to state-of-the-art healthcare simply should not depend

on a person's income or wealth. It should be considered a human right.

*Economic feasibility:* The human right to adequate healthcare can be secured within a relatively short period of time even at the current very low levels of national per-capita income, should the right policy decisions be duly taken.

*Healthcare has been neglected in Romania:* Significant parts of the Romanian population are denied access to adequate healthcare, because the necessary political decisions have not been made thus far.

*Public Versus Private Supply of Healthcare*

Conceptually, the simplest way to provide healthcare to all citizens is to set up a well managed public service, endowed with sufficient resources, so that would be capable of having its functionaries abide by the healthcare service rules.

An entirely different and conceptually more complex way is to leave healthcare provision to private initiative and the market, while making sure at the same time that those with low income are not pushed into a "low-end" segment of the health market, where the protection offered is inadequate. But how can the poor (the term is being used here to denote all low-income citizens, independently of a particular definition of what constitutes poverty) be put in a position to buy adequate healthcare in a private market? In one way or another, their demand in this market must be subsidized.

*The Healthcare and Insurance Markets*

But before we consider the options of subsidizing the healthcare demand of the poor, attention must be focused on a complication that is especially valid with respect to the healthcare market. The need for healthcare is highly uneven, unpredictable, and at times well beyond "ordinary" people's financial means. There-

fore, it requires an insurance that protects the individual against the risk of high healthcare bills. People then do not directly buy healthcare, they rather buy insurance coverage. And it is insurance coverage that has to be made socially inclusive, if we want to pursue the option of a private healthcare market. To achieve this, there are two basic options.

*Linking Healthcare Delivery and Insurance: Public and Private Options*

*The public options:* The state maintains well-equipped and well-staffed clinics and hospitals throughout the country. All citizens have access to these public healthcare facilities – either for free or against a modest fee (from which the poorest strata of the population can be exempt). The public healthcare facilities can be financed two ways:

- out of the central government budget (similar to the situation in the United Kingdom)
- by contributions that are mandatory for all citizens (defined as a percentage of income, with exemptions for the poorest strata of the population).

*Private Option A: Private Delivery, Flat-rate Insurance, State Subsidies:*

1. Healthcare is provided by private doctors (*family doctors as well as specialists*), clinics, laboratories, hospitals and pharmacies, which all compete for clients;
2. All citizens are obliged to buy a health insurance by law;
3. Law makes it incumbent for all health insurers (in case there are more than one – see the discussions below) to cover all “serious” health risks, i.e. paying for all treatments necessary to restore health in case of illness;
4. Law forbids insurers to select good risks, i.e. to exclude people with a relatively high likelihood of needing expensive medical treatment. Law also forbids insurers to

charge high-risk clients with higher fees. Insurers will then charge each client the average per capita healthcare costs plus a mark-up for the organizational costs and the profit of the insurance company;

5. Out of its government budget, the state subsidizes the health insurance of those citizens who can prove that their income is far too low.

*Private Option B: Private Delivery, Income-related Insurance Fees:*

Law sets up the same legal framework as for private option A. But in addition it stipulates insurance fees related to income, so that nobody is excluded for lack of purchasing power. This implies that the richer citizens should pay higher than average fees, while the poorer ones would pay lower than average fees. Such a legal provision precludes the danger that the rich may not buy such an insurance cover, because they will be under the legal obligation to do so.

Of course, there are other criteria to be met for the establishment of a viable healthcare system, stipulating other distinctions with regard to policy options. We have considered two of them, namely cost efficiency and health-care supply for the country-side, in the course of the discussions on our three basic options.

*The Advantages in Favor of the Public Option are that it is Simple and Straightforward*

1. Public healthcare supply corresponds to the existing reality in Romania. No all-out restructuring would be needed;
2. It is socially inclusive by design, because access does not depend on purchasing power. No complicated subsidy scheme is needed to grant access to the poor;
3. Public healthcare supply is not out for profit and seems best suited to keep doctor costs under control, because doctors are public employees and accordingly are paid as such.

*The disadvantages of the Public Option:  
the Syndrome of the Inefficient State*

In Romania, much like the situation observed in other post-communist countries, public healthcare supply has come to display serious deficits with regard to quality, scope and reliability of delivery, as well as with regard to cost efficiency. Too little money is made available to the points of delivery, mostly clinics and hospitals. The practitioners within the public healthcare system do not apply the rules and tend to make delivery dependent on illegal additional payments, so that poor patients are “filtered out” even from that deficient public healthcare service that has currently survived.

All this could be mended, if public administration could be made to function properly. After all, public healthcare has functioned reasonably well under communist rule and it is functioning reasonably well in the UK. But there are serious doubts that the post-communist Romanian state will acquire the capacity (a) to ensure the necessary allocation of resources to public healthcare, and (b) to reduce significantly the endemic corruption within the system any time soon. These doubts mainly refer:

- to the lack of pressure on the political elite, the obligation of which is to make a sustained effort at enforcing efficiency against the considerable resistance from within the system, as well as the lack of political rewards for doing so;
- to the difficulty of raising significantly public revenues, thus making more funds available for higher doctor and nurse salaries, for better equipment, and for a more comprehensive coverage of patients' medication needs;
- to the immanent – not Romania-specific – difficulty of ensuring efficiency and controlling waste in a bureaucracy with its lack of client power and the numerous hidden agendas of the agents operating therein.

*Private Option A Ensures Efficiency for all,  
Public Subsidies Include the Poor Into the System*

Market-driven supply enjoys a big advantage in comparison with public supply, whereby the clients have the chance to enforce efficiency and quality by patronizing the advantageous suppliers and pushing the others out of business. However, in a healthcare market, the pressure of competition must not be taken for granted. Still, there is a potential for it – should the market be given an adequate framework – and it can be predominantly utilized, if each of the following conditions shall apply:

- Patients can choose between competing doctors, hospitals, laboratories, etc.;
- Patients can choose between competing insurances;
- Control bodies are under the obligation to check on behalf of patients whether doctors' prescriptions with regard to treatment and tests are conducive to genuine health rehabilitation or have been prescribed to the purpose of merely increasing turnover;
- On behalf of patients, insurers are entitled to negotiate prices with doctors, hospitals, laboratories, etc.

But even if there is only one (public or semi-public) national insurance cover, private suppliers look for business, tending to oversupply rather than undersupply.

As far as social inclusion is concerned, the provisions of private option A have the advantage of keeping the market and the subsidies for the low-income groups separate. Health insurers are not involved in the difficult job of testing incomes and sufficiency of means for living. Everybody's insurance fees are directly related to average health-care costs. Social solidarity is taken care of by the system that has been explicitly designed for financing public expenditure on public goods and the respective fund redistribution – i.e. the tax system.

*But Private Option A Also Requires Major Restructuring, as It Holds the Risk of an Explosion of Costs and a Drain on Public Funds as Well*

Setting up a universal private-supply based healthcare system with a flat-rate insurance fee and subsidies for the poor requires a profound restructuring. Three tasks have to be accomplished simultaneously, so that the new system could start and replace the old public one. The tasks are:

- to turn public clinics and hospitals into self-sustaining enterprises (without necessarily selling them to private investors);
- to set up a mandatory universal insurance system;
- to provide for subsidies to the poor (and, if politically desired, for dependent family members).

Altogether, this is not an easy target for the weak Romanian state!

Private healthcare can easily become quite expensive, if there is no adequate control mechanism put in place to the purpose. Since insured patients have no incentive to economize, this job is left to the insurer(s), who might tend to be passive and pass on the prices charged by well-organized doctors and other suppliers on to their clients. For insurers to be cost-sensitive, competition for clients would be the strongest incentive. But it requires public supervision to keep up adequate coverage, preventing cut-backs. A non-competing national health insurance that acts like a patients' cooperative vis-a-vis hospitals, doctors, pharmacies, etc. could also control costs – if its managers can be induced to make the effort to do so.

*Altogether, a Private System Tends to Oversupply, Neglecting Costs, Whereas a Public System Tends to Undersupply Without Necessarily Economizing*

The flat-rate-cum-subsidy provision of private option A might cause an excessive drain on public expenditure in countries where large parts of the population cannot pay for a flat-rate insurance fee and, therefore, need to be subsidized. Even if alternative solutions ultimately do not cost less to the people, the limited tax-raising and tax-collection capacity of the South-East European state has to be taken into account. Of course, this danger becomes the more serious the less cost control actually succeeds, as discussed in the preceding paragraphs.

*Private Option B is as Efficient as Option A, but Uses Less Tax Money*

In comparison with a public system, the same considerations mentioned above in connection with private option A apply here as well. But how does private option B compare with private option A?

Income-related mandatory insurance fees incorporate the indispensable subsidizing of the low-income groups into the healthcare system. That frees the tax-system from paying potentially huge transfers into the healthcare system.

*The Disadvantage of Private Option B: Control is Difficult*

It is difficult, though probably not impossible, to have mandatory income-related insurance fees and competing private insurers, which would constitute a major device to press for efficiency. In any case, much regulation would be required to force private insurers to apply low fees to poor clients and to accept and admit poor clients altogether. The danger is that without flat rates, competing private insurers recreate a two-tier system, with some special-

ization in the upper end of the market (with high prices and good healthcare), whereas other patents are kept in the lower end of the market (with low prices and poor healthcare).

*Three Options to Supply the Countryside with Adequate Health Care?*

*The Public Option: It Is the Easiest, if We Had a Functioning State*

The public option would theoretically have least problems to accomplish this, if:

- the government were to set up a sufficient number of clinics and hospitals in the countryside, combined with mobile service stations and transport aids, such as can be found in other countries with a low density of population;
- the government – to start with – were capable of freeing the existing system from its serious deficiencies.

The second “if” brings us back to the fundamental doubts about the public option that have been laid down above.

*The Private Options: Mandatory Insurance Creates a Market in the Countryside as Well.*

The private options have to rely on incentives for private suppliers to set up business in the countryside. Since the private insurers pay competitive fees to the suppliers, there are business opportunities for practitioners to go to the countryside. This is the more so, if health-care markets in urban areas are highly contested (oversupplied) and the business opportunities for individual suppliers become increasing less advantageous accordingly.

*A hybrid option would rely basically on private market solutions, but would supplement them either with:*

- public subsidies for doctors in the countryside, or
- public transport services for patients, or
- both.

*A Tentative Recommendation:*

*Private Delivery, Income-related Insurance Fees*

None of the options point to a straightforward success. The political odds are not directly favorable for having any of them functioning well. But the alternative to all of these options (perhaps the “realistic” option) is continued social exclusion, meaning that poor people on the average will be less healthy, will have more physical and mental handicaps, and will live less long accordingly.

On weighing the advantages and disadvantages discussed above, private option B might be the best bet. The likely price to be paid would be to renounce competition on the insurance market. The ensuing loss of efficiency could perhaps be offset in part, if the insurance is set up as a patients’ cooperative, with top managers being elected by patients and with an ombudsman who explores efficiency reservoirs and reports to the patients.

*Without a Major Effort: Good Healthcare Will Only Be Accessible for Those Who Can Pay*

The privatization of the public health system, as it has been suggested here, is so far from the present-day reality in Romania that it might appear genuinely utopian. The actual Romanian reality, on the other hand, is one of a large-scale exclusion, poor or no service for the poor whatsoever, topped with an all-pervasive corruption. Mending these deficiencies requires something close to a fundamental redesign of the state apparatus and the entire political process that determines the control over this apparatus. Probably this is a much more all-encompassing effort and hence – a much more “utopian” prospect than the mere replacement of the existing healthcare system by a completely new one. Incremental improvements of the existing system are an illusion, should its foundations – the way in which Romania’s political system actually functions – remain untouched. Whichever



way, a socially inclusive healthcare system is not something any Minister of Public Health can do. It is something that would require the central attention of the Prime Minister and the political force (the party or coalition of parties) that has brought him or her into office.

### **Promoting Employment**

#### *Why Promoting Employment is a Priority for Social Inclusion*

*Gainful employment is the basic mechanism of social inclusion.* It provides the most important source of income for the “ordinary” people.

*Key to pensions:* The way, in which the pension systems normally functions, gainful employment during most of the working life is the only way to acquire entitlements to old-age pensions (unless individuals save on their own for the time when they can no longer earn a living).

*Tax base:* Unless the state concentrates on taxing consumption (VAT, excise taxes), its ability to finance public policies, including education and subsidies for the poor, depends to a considerable extent on the volume of salaries it can tax.

*Still the major deficit in Romania:* As a consequence of the almost unavoidable restructuring of the former socialist economy (the structure of which was determined to a great extent by the former Ceausescu-style market-defying voluntarism), many hundreds of thousands jobs have vanished in Romania. The emerging capitalist market economy has so far created comparatively few decently remunerated replacements. In the first ten years after the revolution (after a futile attempt to keep old structures alive), economic development has been determined by the close-down of numerous existing production facilities, which were no longer competitive in the new

market environment. When new investment gained momentum (after 1999), speeding up output growth, they set up production facilities with a much lower ratio of national work input per output unit than it was the case in the relatively unproductive socialist economy. Thus, the rhythm of job creation stayed well behind the rhythm of job cuts. With the formal labor market remaining far from absorbing the workforce, many people took to unproductive subsistence farming and “informal”, largely precarious, forms of selling their work services to carve out a niche for survival. These “reservoirs” of unproductive rural and informal urban labor are part and parcel of the social exclusion syndrome in Romania.

Lately, Romania has come to face an increasing shortage of manpower – highly skilled and not so skilled. This is predominantly caused by labor migration abroad, which, in turn, is a response to the job shortage at home, as well as to the huge wage gap between domestic and foreign labor markets. At the same time, formal employment remains very low indeed and precarious forms of work, such as subsistence agriculture, continue to abound. Part of the problem here is that people do not move readily from low-employment to high-employment regions or localities.

#### *The Central Task: Incorporate More Persons into the “Formal” Labor Market.*

Our proposals are based on the premise that decently paying employment for all will not be available for a long time to come in most of South Eastern Europe. Still, everything possible must be done to strengthen the employment pillar of social inclusion. This implies that policies related to the labor market must concentrate on the creation of formal employment and not on the protection of the employed.

Employment creation is a task confronting public policy throughout South Eastern Europe, precisely because the dynamic de-



velopment of markets alone will most likely prove incapable of providing for an adequate solution for a long time to come.

There are 3 strategic directions for public policy to help employment.

1. *Create new jobs;*
2. *Increase employability;*
3. *Reduce barriers to entry into the formal labor market.*

#### *Creating New Jobs: Well-designed Public Work Schemes*

As economies grow, demand for labor will grow, too. But

- as new jobs appear, old ones still continue to disappear, reducing the net increase in employment;
- economic growth tends to be capital-intensive, requiring relatively little additional work input per unit of additional output.

Therefore, there is a case for the state to speed up employment growth by setting up relatively labor-intensive public work schemes. In addition to providing jobs for the unemployed or precariously employed individuals, public work schemes carry two other benefits:

- Employment creation can be targeted at the disadvantaged groups of the labor market (e.g. low-skilled workers, people in depressed regions, etc);
- Public works, if well designed, improve the country's infrastructure, facilitating future economic growth and/or increasing the quality of life for the citizens (e.g. improved road access to remote places).

But, of course, public works cost public money. Moreover, the additional *benefits materialize only if the schemes are well designed – something that requires a highly competent state bureaucracy.*

#### *Creating New Jobs: Facilitating Part-time and Other Non-conventional Types of Employment*

Part-time employment lets more individuals participate in a given manufacturing or service task. Therefore, labor market regulation should facilitate and/or stimulate it, at least voluntary part-time work in particular.

#### *Creating New Good Jobs – Crowding Out Bad Jobs*

While wages increase rapidly in some segments of the Romanian labor market, because employers compete for skilled personnel, in other segments wage increases remain way behind average productivity increases. This applies in particular, but not only, to services where productivity cannot easily rise in a physical sense, such as, for instance, in teaching, health care, public administration, or domestic services. Wages remain low there

- because abundant labor supply keeps them low, or
- because labor is not aggressively demanding pay rises, or
- because the public employer faces budget constraints.

At present, economic experts worry that wages are growing too fast, boosting demand beyond the country's capacity to expand production, thus creating inflationary pressure at home and driving the trade balance into deficit. On the surface, these worries do not seem entirely unjustified. But here the country finds itself in something of a *social polarization trap*. In a socially inclusive Romania, there should be no room for precarious, extremely low-paying jobs. They would have to disappear. But the way to make them disappear is to dry out their labor supply. Only if labor is scarce enough, will bad job offers remain vacant. Employers will then be forced to improve their offers or get out of business. The unavoidable consequence will be that many of these services, which have

little room for productivity increases (teaching, hair-cutting, nursing, house-cleaning, etc.), will become more expensive. This means inflation, but inflation of this kind is the way for the economy to shed the bad jobs off and to adopt a more socially inclusive structure. A policy aiming at social inclusion must accept and even promote this type of inflation. The unavoidable consequence of wage increases in line with the overall productivity increase will also be that some production lines will no longer be internationally competitive (e.g. garment-making). This, too, will be positive, if it goes along with – and actually is caused by – the expansion of better-paying jobs.

The absorption of extremely low-wage labor into the modern, relatively high-wage sector of the economy, underlies the transition from a socially exclusive to a socially inclusive economy, and this is precisely what necessarily goes hand in hand with macro-economic disequilibria. *Economic policy that is overly concerned with maintaining equilibrium risks conserving the structure of social exclusion*, i.e. the labor abundance that is at the roots of exploitation, low pay and poor working conditions. Productivity increases are always concentrated in some sectors of the economy. The others must be allowed to get under a twofold pressure: to raise prices and to shrink (and in many cases: to disappear).

#### *Making People More Employable by Improving Their Skills*

Public policy can facilitate formal, decently paying employment by:

- ensuring that every child and adolescent gets a good education (see the chapter on education);
- adjusting school curricula, to the possible extent, to the demands of the labor market;
- setting up appropriate schemes for professional education, accessible to all;

- setting up schemes for life-long learning, i.e. meant for recurrent skill upgrading and retraining.

*Increasing the skill level of the population is a no-regret policy*, even though it cannot make up for the lack of jobs entirely on its own.

- The corresponding schemes create jobs by themselves because they employ both teachers and trainers;
- An important result will be that the country becomes more attractive for investors;
- Universal good education is by itself an important means of reducing social exclusion.

#### *Making Available Jobs More Accessible:*

##### *Offering Affordable Housing in “Boom towns”*

The prolonged co-existence of labor scarcity in booming regions (mostly larger cities) with abundant labor supply in depressed regions is due in part to the high living costs in the booming regions that restrict internal migration. An appropriate policy response would be to supply affordable housing in the regions/ towns where manpower has become scarce. At the moment, this does not seem to be a likely priority for the hard-pressed public budgets. But in the longer run it might be worthwhile to devise ways of pooling private and public resources to the purpose of low-cost housing construction.

In addition, an *adequately staffed inter-regional labor office* can be set up to guide job-seekers in the province into the available jobs elsewhere (like Germany has done in Eastern Turkey in the 1960s, when the German industry was desperately looking for foreign workers).

#### *Increasing the Supply of Formal Jobs:*

##### *Enhancing Employment Flexibility (the Concept of “Flexicurity”)*

Employers hesitate to hire additional personnel, if they anticipate serious difficulties

with laying it off later on, when it could no longer be needed. Job protection can, thus, turn into an obstacle to employment creation. Employers tend to resort to all kinds of informal solutions (legal, half-legal, and illegal) in order to avoid the anticipated costs of formal downsizing. They prefer flexible work contracts.

Workers prefer contracts that provide job security, mostly in a context of job scarcity, where decently remunerated work is a certain privilege and where losing it carries the prospect of outright poverty. The notion of social inclusion implies the basic security of “remaining included”.

Labor market policy can aim to combine the flexibility employers appreciate with the security workers aspire for. This implies that labor market regulation focuses on income security rather than job security: while the employer has the flexibility to lay-off excess work force without much difficulty, the laid-off workers have the security of maintaining their income level. This is the essence of the concept of “flexicurity”.

How to get “flexicurity” in the context of labor abundance?

- By keeping people employable, training and retraining them in accordance with the needs of the labor market;
- By facilitating the transfer of labor from shrinking enterprises, sectors, and regions to expanding enterprises, sectors and regions (see the sections above);
- By setting a relatively high ratio of the unemployment benefit level and the last wage before redundancy, at least for a few months.

The key to working “flexicurity” is a high chance of relatively rapid re-employment of people laid-off, which might require a preferential treatment for those, who have recently been laid-off, in comparison with other unemployed workers. The benefit from such a

scheme will be a higher rate of employment altogether, as companies are more willing to hire personnel in conditions of uncertainty.

### *Increasing the Supply of Formal Jobs: Reducing Taxes on Work, Financing Social Security Differently*

Other things being equal, employers will provide more formal jobs, if the costs per formal working day or hour are relatively low in comparison with the costs of informal work. This condition would be improved by an arrangement, which eliminates the social security contributions paid by employers and employees, replacing them by state contributions. It would imply a rise of taxes to finance the additional government expenditure. On the average, people will not be left with more disposable income. The transition would have to be compensated for by a wage increase more or less equivalent to the former “social taxes”. Thus, work would not immediately become cheaper. But the effect could still be

(a) that the changing needs for funding social security would no longer affect the cost of labor;

(b) that not only formally employed individuals would pay for social security, but basically all citizens will.

However, the advantage of de-linking social security and labor costs comes at a price. The link between contributions and benefits would also become totally blurred, erasing any sense of earned ownership on the side of the beneficiaries. Moreover, budget constraints might convey a tendency towards benefit cuts, which could undermine social inclusion. A compromise could consist of a combination of:

- benefits directly financed out of the government budget, and
- benefits financed by contributions levied on all citizens, rather than just on the dependently employed ones.

Candidates for the first type would be all kinds of flat-rate transfers, i.e. transfers that are not related to the beneficiary contributions, such as a guaranteed minimum income, including a minimum old-age pension.

Candidates for the second type would be:

- top-up pensions;
- contributions to the mandatory health insurance, which must not be allowed to fall below the true costs of good healthcare (see the chapter on healthcare above).

Unemployment benefits, which according to the notion and principle of “flexicurity” discussed above should be close to the last wage, could stay in the domain of employee/ employer contributions, so that the link between risk and coverage remains clear. But they could also pass into the responsibility of the central government, since the replacement ratio would be fixed by law.

### **Social Services**

#### *Special Social Contingencies Remain and Require Special Care.*

The pillars of an economically feasible social inclusion strategy for Romania discussed at length above actually take care of the most serious *consequences* of insufficient income, as well as – to some extent – of the major *cause* of insufficient income. But social exclusion is not only a consequence of the lack of income that could be mended by a public-goods provision approach. Often it takes particular (and especially harsh) forms that *cannot be only* mended by access to good healthcare and good education on their own, but also require special case-specific attention.

Three such personal emergencies stand out as particularly frequent and serious, namely:

- children in distress, without any family help whatsoever;

- drug addiction;
- extreme poverty, lack of personal income coinciding with lack of whatever family support.

There are other types of emergencies originating from family problems, health problems and lack of money. It is unnecessary to identify them because we recommend social service structures that are orientated and susceptible to all kinds of personal needs. What is important is to emphasize that such needs do require attention and that mending these problems must be part and parcel of any strategy of social inclusion.

But it is also important to stress that a socially inclusive education and a similar healthcare system would considerably reduce the number of cases that need special social service attention. An appropriate strategy of social inclusion could turn such cases into a *residual category*.

#### *General Institutions to Identify Needs – Specific Institutions to Attend to Them*

Abandoned children need a different type of care than an old woman without a family who is unable to do her shopping, or a family left without any income because the mother is mentally ill, and the father has disappeared. It is not our purpose to offer satisfactory answers to all the various issues that arise in connection with the variety of social problem cases. But we propose an institutional set-up, which can be entrusted with specific powers to lend due attention. This set-up should observe the following principles:

- a common institution in the capacity of a first stop for all kinds of social ills and problems, as a general “relay station” from which “clients” are channeled to the appropriate providers of specific assistance;
- an institution entrusted with the obligation for an active search for problem cas-

es, carried out by a staff of well-trained social workers;

- decentralization of social service delivery, centralized funding (in order to overcome the budget constraints of poor communities).

#### *Make Use of Private Commitment but Maintain Public Control*

Care for disadvantaged people is one of the most important fields of private charity of all kinds. Much of this charity is organized by non-profit organizations and is based on volunteer work. A poor government should make use of this potential. It adds to the finance, the organizational capacity, and the professional expertise available to the social services. There is a variety of ways to combine such private and public initiatives.

- Government funds and private non-profit deliverers of social service, leaving the organizational set-up to the latter;
- The government buys the services of private deliverers, incorporating them into the public “master plan” of social assistance;
- The government leaves the field largely to private charity and confines itself to filling the gaps left by private social services.

There is not a single way, which we recommend as the most appropriate. But we stress upon the *necessity that government should set and enforce the standards of good service delivery*. This does not exclude the possibility for government agencies themselves to be able to learn from experienced non-government deliverers. This would require an appropriate set-up for the transfer of experience and continuous improvement. However, the ultimate responsibility for all those in need receiving adequate relief (the very essence of social inclusion) remains with the state.

#### *Making up for Insufficient Income: Guaranteed Minimum Income Schemes, Extended Public Goods Approaches or Case-by-case Social Assistance?*

At the beginning of this policy paper, we justified the concentration on essential “public goods” (education, health-care, etc.) by the huge discrepancy between needs and resources. We based our strategy proposal on the premise that the Romanian state cannot raise enough public money in order to increase everybody’s incomes with public top-up transfers to a level that permits a “decent” standard of living. In other words, we think that guaranteed minimum income schemes, which would lift everybody out of poverty, are utterly unrealistic.

On the other hand, we cannot deny that the central problem of social exclusion is often the lack of cash to buy essentials (food, shelter) – even if health is taken care of. A strategy of social inclusion cannot neglect this dimension. There are three basic ways to deal with it under the present conditions in Romania:

- A very low level of the guaranteed minimum income (in line with public finances);
- Subsidized housing and food for the needy;
- Cash assistance in selected cases, if all other means fail.

#### *A Very low level of the Guaranteed Minimum Income: Much Money for Little Inclusion*

The main advantage of a guaranteed minimum income is its universality and applicability to all kinds of problem causes. But it has two serious disadvantages:

- Means-testing requires high administrative costs and easily becomes a source of distortions;
- In Romania, where poverty is still widespread, a universal entitlement uses up much public finance. If the individual entitlement is reduced to the size the state can afford, it might become too little to



make any real impact. Large-scale social exclusion might remain, even though many poor get a little bit more money.

*Subsidized Housing and Food for the Needy: Yes, if Housing and Food Should be Major Problems*

Providing everybody with good healthcare and securing a good education for every single child is essential, because these two items are of supreme importance for the life chances of any individual. Housing, food and maybe other items for consumption (transport, for instance) can also be considered to be essentials. But whether they should become the target of a priority-oriented strategy of social inclusion depends on a proper needs assessment. If housing is a major problem for the poor, a well-targeted subsidized public housing scheme can make a difference. If housing is not the main worry (as it is in the country-side), public money should rather be allocated elsewhere. (See also the section on subcultures of social exclusion below). The same applies to food – be it in the form of public canteens or the US-style food stamps.

Subsidized supply of anything, which is not meant to become a universal entitlement, requires the respective means-testing, whereby the above mentioned disadvantages apply. This should also be taken into consideration when decisions are made on the implementation of such schemes.

*Cash Assistance in Selected Cases: Probably a Better Option Than Guaranteed Income Schemes*

Many people can prove that their money income falls below the poverty threshold. But not all of them are equally miserable. Some may live in a household together with others who also earn an income. Some may have income in kind (farmers). Some may be supported by their kin. Some may have undeclared income sources.

But there are also such individuals who have none of these and who do live in misery, maybe near to starvation and are really dependent on begging. These people may need care, advice, and love. But they also need money. And a strategy of social inclusion has to provide that money.

The first problem is: how to discern those who are the most in need from all the rest. The best approach might be the social-worker approach, which was advocated above for the need for social assistance in general. The next problem is: how to provide the money without opening the door to large-scale abuse, precisely because the entitlements are *not* universal and discretion is a central feature of this approach. Voluntary charity initiatives (preferentially organized in networks) that cooperate with the public social workers might be part of the solution.

*Special Attention to Emerging Subcultures of Social Exclusion*

The profile of social exclusion in Romania is not only shaped by generalized deficiencies (the target of proactive universal policies) and individual biographic contingencies (the target of specific social services). It is increasingly being shaped by the emergence of self-reinforcing subcultures of poverty and exclusion. Slums are their most visible embodiments. These subcultures need manifold social-services attention. But two policy directions are of particular importance. One refers to housing as a central aspect of the emergence of slums, whereas the other one refers to the target group of “children”, who should be rescued by all means from the subculture of exclusion, from which adult people might prove incapable of escaping any more.

*Affordable Housing and Affordable Utilities...*

...are key to the suppression of slums – in both a proactive and curative way. Conceptually, means-tested subsidies to the poor in the form



of vouchers for the payment of rentals and utilities bills are the easiest way to provide these. This can become a rather expensive solution, if the real estate market continues to be left unchecked and entirely to the mercy of the forces of (speculative) private demand and supply. Public supply can be the better solution. To this purpose, the authorities must secure for themselves land-plots at reasonable prices, as they should do anyway for the sake of urban planning in the fast growing agglomeration zones. If needed, laws would have to be changed to permit expropriation at controlled prices – as it is normal done in many Western democracies.

With control of land, the authorities can develop low-cost housing for poverty-stricken target groups, perhaps making use of the beneficiaries' own work input (examples exist in both "third-world" and developed countries). These low-cost public houses can be supplied with subsidized utility services. They can be kept so modest that their tenants would have the incentive to move to better quarters, once they can financially afford it. Still, means-testing is probably unavoidable. Among other things, it would allow to vary rents in accordance with the tenants' income.

#### *Rescuing children from their parents' subculture...*

...remains a priority task for any policy of social inclusion. Once they exist, these subcultures will most likely prove rather resilient vis-a-vis policy attempts at dissolving them and re-integrating their adult members into the mainstream of society. If children are left entirely under the influence of their families, they will run a high risk of remaining socially excluded for the rest of their life. Confronted with the choice between the friendly permissiveness accorded to slum dwellers and authoritative interference, the state should give priority to the rights and life chances of endangered children.

A universal supply of good education with

full-day schools and pre-school attendance will go a long way in detaching slum children from their negative home milieu. But offers are frequently insufficient. Special social-worker attendance will be needed to induce and help parents or guardians to make use of such offers. As a last resort, school and pre-school attendance should be enforced – for the sake of the children.

#### ***Priorities Within the Strategy, Priority for the Strategy***

Any concrete policy package to fight social exclusion will be beset by countless problems. Many of them only become visible when we go into the details. Compromises between conflicting goals will be unavoidable. Many decisions will turn out to be mistaken and in need of correction.

But all this must not obscure the view of the direction to be taken. The top priorities we have proposed remain the top priorities even if on other fronts of the battle against social exclusion things do not prove to be quite so clear.

To repeat once again: social exclusion in Romania will only be overcome within a relatively short period of time, if politics should attribute a high priority to this objective, subordinating other policy objectives to it. This implies that the necessary resources are made available and that the necessary steps are, in fact, taken. Some of the steps must be bold steps that are out of tune with the current post-communist culture of public permissiveness. Laws must be changed if necessary. Without courageous political leadership ready to go beyond comfortable political "realism", social inclusion – even in the limited meaning of universal access to "essentials" – will not be achieved in Romania. It will turn into an eternal agenda, the subject of countless programs, countless conferences and countless studies, benefiting the experts rather than the poor.

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## Part 2: Conference Contributions

### Policy Priorities of Social Inclusion in Bulgaria

*Totyu Mladenov*

(1) Bulgaria does not stand apart, nor is it isolated, from the common European efforts to set up a working social model. It is true that each country has a model of its own and its own policies, but this is only natural as conditions in the different countries vary. Despite this fact, however, countries could start looking for their common problems and common challenges.

(2) Bulgaria's participation in the European process for social protection and social inclusion greatly contributed to the establishment of our national social model. Especially positive is the effect played by the participation of the country in the European Open Method for coordination in the area of social protection and social inclusion, which encourages the exchange of good practices among the member states in connection with the shared responsibilities on the national, regional, and local levels, and the exchange of such good practices among the administrations and the rest of the stakeholders. This is the way in which the pursuit of the common European goals has been encouraged as well.

(3) Here we should mention the contribution of the European principles and models to the Bulgarian social policy at large. It is no secret that the efforts to establish a sustainable and effective system for social protection and social inclusion were one of the most serious challenges Bulgaria had to face. Besides, we must admit that the Bulgarian social model is still in a process of improvement in order to fully harmonize it with the achievements of the European legislation (*aquis communautaire*), and the European policies and social practices as well.

(4) One of the most significant developments in the social policies of Bulgaria over the last few years was the launch of the process of establishing an integrated social inclusion policy.

(5) Social inclusion is a relatively new concept in Bulgaria's social policy. Gradually, from a merely theoretical concept for Bulgarian policy, the social inclusion concept turned into real politics with well established instruments for its implementation. Nonetheless, each of these instruments must be improved. And this is the commitment Bulgaria has undertaken in its National Social Inclusion Action Plan for 2008–2010.

(6) Bulgaria is a country facing a number of challenges in the area of social inclusion and poverty eradication. There is no single policy sector where additional measures need not be applied. In most general terms, the current picture in Bulgaria, as far as poverty and social exclusion are concerned, indicates that the poverty levels among the population groups excluded from the labor market are higher than the overall poverty level for the country as a whole. This trend is most prominently expressed among children, the elderly, and the unemployed.

(7) It should be mentioned that in cases where a combination of various risk factors is observed, such as unemployment, children in the family, low educational level, etc., the situation in terms of poverty and social exclusion risks is even more disturbing. In this respect, we have to cope with challenges in other directions as well, such as the *inclusion* of the Roma population and the people with disabilities, as the latter are still facing the limitations of the environment, which is inaccessible for them. Unfortunately, the difference in the poverty levels between the two genders has also been retained.

(8) The issue of poverty and social exclusion acquired an especially sensitive dimension within the context of the ongoing global financial and economic crisis. The manifestations of the crisis are quite visible now: we see job cuts

and an increasing unemployment level, coupled with a deteriorating quality of labor, etc. In conditions such as these, it is the most vulnerable strata of the population that pay the highest social cost. The crisis has further exacerbated the question about: "Which are the measures that could have the most tangible effect on curbing the spread of poverty, its rising levels, and the social exclusion this crisis generates?"

(9) All this indicates that public policies should adopt a special approach to the especially vulnerable groups in Bulgarian society that could help us overcome their social exclusion in a durable way, thus putting an end to the phenomenon of inherited poverty from one generation to the next. Among these groups, special attention should be focused on the problems experienced by individuals, the age of whom does not permit them to work, such as children and elderly people. Other people needing attention are the families with children, single parents, and families with three and more children. Another such group is that of the able-bodied but economically inactive people who live in remote settlements far from the actual labor market, among whom there are young people, people who have been out of employment for a long period of time, people living on social benefits and welfare support, people without education or a low educational level and no qualification whatsoever, people with obsolete knowledge and skills. Other such people also are: the illiterate or semi-literate people, the Roma population, the people with disabilities. Here we should include women as well, who are either unemployed or else are too old to work altogether.

(10) These precisely are the groups, which our social policy measures target in the current National Social Inclusion Action Plan, and it is focused on the following priority political measures:

- Curbing the extent of poverty transfer and lowering the extent of social exclusion from one generation to the next, the

emphasis being laid on child poverty and social exclusion;

- Active inclusion policy measures for all people living in remote settlements far from the actual labor market;
- Equal opportunities for the most vulnerable social groups;
- Better management of the social inclusion policies.

(11) Despite the fact that Bulgaria has periodically been endorsing three years' action plans for social inclusion and has set to achieve the respective political and quantitative targets, what the country lacks is a long-term social inclusion strategy. In order to guarantee a higher degree of effectiveness and more sustainable results from pursuing these policies, the measures involved should be of a longer-term horizon in terms of planning, implementation and respective impact. It is in this way only that sustainability of the policy priorities can be achieved, along with the respective continuity of the implemented measures.

(12) This is the reason why this year – 2010, which is the European year of combating poverty and social exclusion, is exceedingly important for us, because we shall be able to hold a broad debate with all stakeholders, to elaborate and endorse a long-term national strategy on all issues concerning social inclusion, which will inevitably encompass poverty eradication as well.

(13) Speaking about a broad debate we mean, of course, not only the newly established National Council on the issues of social inclusion, but also the debate on all possible levels: national, regional, and municipal, involving all key stakeholders, such as the social partners, NGOs, and many others.

### **Additional Information**

*1. Priority political objectives and areas of activities within the framework of the 2008–2010 National Social Inclusion Action Plan:*

- *Curbing the transfer of poverty and social exclusion between generations (with emphasis on child poverty and social exclusion).* The more critical areas identified here are: investments in early child development, responsible parenthood, early school enrollment; school drop-outs, multilateral and targeted support for the most vulnerable families, simultaneous handling of family and professional life, childcare reform, which should also involve means for the deinstitutionalization of social services, intended both for children and families, as well as child poverty monitoring;
  - *Active inclusion of people who live remotely, i.e. at a distance from the labor market.* The more critical areas, where action should be taken are: ensuring opportunities for youth employment, activation of illiterate people and people without education and/or any professional training, people depending on social support and welfare payments, activation of inactive and discouraged people, ensuring an adequate minimum of pay for them, retaining at the same time the proper incentives for them to seek employment, provision of social services to people who at a distance from the labor market, etc;
  - *Equal opportunities for the most vulnerable people in Bulgarian society.* The special focus here is on people with disabilities (e.g. the vulnerable situation of children and adults with mental disturbances, people living in specialized institutions, the education of children with such disabilities, accessibility, employment, and the social economy providing various services, welfare support, social services, and home care, prevention of impairments and proper rehabilitation, etc.). The Roma population is another focus (e.g. deepening of the multilateral approach, activation, integrated education and services, better living conditions, etc.), as well as the emphasis on equal opportunities for men and women;
  - *Better management of the social inclusion policies.* The major directions here are: development of a long-term social inclusion strategy, establishment of consultative bodies on the issues concerning social inclusion, structuring the cooperation activities in the area of social inclusion on the local and regional levels, improvement of the administrative capacity and the capacity of the civil society representatives, by training and preparing them to participate in the entire cycle of social inclusion policy management, etc.
2. *Quantitative targets as of 2010 for the monitoring of the implementation of the 2008–2010 National Social Inclusion Action Plan (2007 taken as a base year):*
- 1) Maintaining a poverty level for the country as a whole, which does not exceed 15%;
  - 2) Reducing the poverty risk among children up to 15%;
  - 3) Reducing the poverty risk among households with three children by at least 10 percentage points;
  - 4) A 20% average increase of personal household income;
  - 5) A 20% increase of the personal income of households raising at least one child;
  - 6) Drop-outs from pre-high-school education who are still under the mandatory school-going age – 2%;
  - 7) Level of early drop-outs from school – 15 %;
  - 8) Net coefficient of enrollment in elementary school – 100%;
  - 9) Net coefficient of enrollment in pre-school education (crèches and kindergartens) – 100%;
  - 10) A twofold increase of the number of children with special educational needs who have been integrated in general-purpose and vocational schools;

- 11) A 30% increase of the number of Roma schoolchildren who have been taken out of segregated schools;
- 12) A 15% decrease of the number of children provided with social services at specialized institutions;
- 13) A twofold increase of the number of children in risk raised by foster care families;
- 14) A 50% increase of the number of social services offered in the community;
- 15) A 65% overall employment rate (in the 15–64 age bracket);
- 16) A 60% overall women's employment rate (in the 15–64 age bracket);
- 17) A 27% overall youth employment rate (in the 15–24 age bracket);
- 18) A 5.5% overall unemployment rate (in the 15+ age bracket);
- 19) A 12% overall youth unemployment rate (in the 15–24 age bracket);
- 20) A 3.5% rate of the long-term unemployed (in the 15–64 age bracket);
- 21) A 2 percentage points decrease of the share of people with permanent disabilities out of the total number of the unemployed;
- 22) A 10.5% share of the children living in households of unemployed;
- 23) An 8% share of the people living in households of unemployed;
- 24) A 20% decrease of the number of people who depend on monthly social welfare support;
- 25) A 17% share of social protection costs in terms of the country's GDP.

### *3. The European Open Method of Coordination in the area of Social Protection and Social Inclusion*

- The major instrument through which the European process for social protection and social inclusion is carried out is the European Open Method of Coordination in the area of Social Protection and Social Inclusion. The method provides the framework for accomplishing political coordination,

which does not necessitate any mandatory legislation on the European level, i.e. this method is governed by no legal limitations whatsoever. In this way, the member states agree to identify and encourage the most effective policies in the area of social protection and social inclusion;

- The open model of coordination in the area of social protection and social inclusion is decentralized, flexible, and includes the following principal elements:
  - Common objectives, which are set on a high level, so that they could underlie the entire process;
  - Common indicators, which show how progress towards the common objectives should be measured;
  - National strategic reports on social protection and social inclusion, in which the member states have planned their policies for a certain period of time in to order to achieve the common objectives;
  - A joint assessment of the strategic reports by the European Commission and the member states.

(4) The previous practice of individual reporting on the various directions of the Open Method of Coordination was replaced in 2006. Since then, the member states have the obligation to submit a National Strategic Report every two years, which encompasses all mandatory directions: social inclusion, pensions, healthcare, and long-term care. The member states have submitted such common reports only twice thus far: a 2006–2008 report, and another 2008–2010 report. Bulgaria has also submitted these two reports.

(5) These strategic reports consist of four major parts: I. General Review; II. National Social Inclusion Action Plan; III. National Pension Strategy; IV. National Healthcare and Long-term Care Strategy.



## Social Inclusion in Bosnia and Herzegovina – Is It on the Government Agenda?

*Aleksandar Draganić*

### ***Bosnia and Herzegovina – a Complex Administrative Structure With Sound Economic Growth***

In general terms, being "excluded" is understood as being left outside the mainstream of society and denied access to the social, economic and political rights afforded to others. Social inclusion not only draws on economic and social rights but is also related to all entitlements relevant to enlarging the choices of individuals to live a decent and meaningful life. The social fracture, which accompanied the 1992–1995 conflict in Bosnia and Herzegovina, was cemented during its aftermath and remains a central issue with a huge impact on social exclusion within BiH. During the 1992–1995 war, human loss and material destruction were enormous. Direct material and economic damage has been estimated to stand at US\$50–60 billion, wiping out most of the country's production capacity.<sup>18</sup> Indirect damage, such as the destruction of governmental and management systems, interruption of scientific and technological development, and the drain of the qualified labor force and experts, are practically immeasurable, although that was a process that also took place on a huNowadays, Bosnia and Herzegovina is a complex state made up of two entities, the Federation of Bosnia and Herzegovina (FB&H) and the Republic of Srpska (RS), and the Brcko district as special territorial unit within the country. With its area of 51,209 sq.km., and a population of 3,8

million, B&H is one of the smallest countries in the region. The administrative set-up of the country is very complex, whereby many policies related to social inclusion are hard to implement due precisely to this complexity. The Republic of Srpska is a centralized entity with 63 local government units and the Federation of B&H is decentralized entity with 10 cantons and 80 local government units. Cantons are not another level of local government but rather political and territorial units with pronounced state-like features.

Bosnia and Herzegovina is a country that has registered a "strong economic growth" rate over the last ten years, as stated in the documents of the International Monetary Fund and the World Bank. The country's GDP has more than quadrupled, exports of goods have increased by 20% on average over the past eight years.<sup>19</sup> The estimated per capita GDP amounted to 5633 KM in 2007 (USD 3940), or USD 7700, if the measurement is based on the purchasing power parity (PPP). The fact that the level of poverty has not changed throughout this entire period should be considered as lack of sound social policies.<sup>20</sup> The main concern is now connected with the visible and growing inequality among the country's population, which can be seen in the growth of the Gini coefficient from 0,26 to 0,41.<sup>21</sup>

### ***Ethnicity – a Major Reason for Social Exclusion***

The country is highly divided, not only administratively, but also on ethnical and religious ground. Prior to the 1990's (prior to the 1992–1995 war), almost every municipality enjoyed the majority of one ethnic group as dominant

<sup>18</sup> National Human Development Report 2007, Social inclusion in Bosnia and Herzegovina, UNDP.

<sup>19</sup> The World Bank, 2008

<sup>20</sup> Household expenditure survey – data on the poverty level in 2001, 2004, and 2007 (B&H Agency for Statistics).

<sup>21</sup> Based on the Living in B&H Survey and general statistics.

on the specific territory (the so called “leopard skin pattern”<sup>22</sup>). The territorial split, which occurred during the war, corresponded to the separation of “minorities” from “majorities”, with few exceptions. The war that ended in 1995 institutionalized these ethnic differences by a new administrative organization of the country, providing the Serbian majority with the Republic of Srpska, and the Croatian and Bosnyak majorities respectively – with a few cantons within the Federation of Bosnia and Herzegovina. The most important aspect within the ethnic division of the territory can be seen in the fact that elected politicians, even on the local level, follow policies that do not endanger the current situation of territorially divided majorities.

Robert Putnam, the most popular author writing on the social capital concept, has said: *Bonding without bridging equals Bosnia and Herzegovina* (Salaj, 2008)<sup>23</sup>. In this way, he wanted to point out that the bridging social capital is missing, while the bonding social capital is quite strong.<sup>24</sup> The political reflection of the missing bridging capital is manifested in the political life of the country, particularly after the war. Generally, all people from the same ethnic group have their own “national” political parties that articulate “their” policies. Unfortunately, these policies hardly involve the topic of social security or the aspect of social exclusion. In the last 10 years, the

main category on which the various administrative levels have been focusing attention in the area of social security are war veterans, war invalids and the families of killed soldiers.

Ethnic divisions remain one of the most important factors determining social exclusion in Bosnia and Herzegovina: Firstly, these divisions are a direct cause for the exclusion of minority groups, i.e. those who do not belong to the majority ethnic population in the area; secondly, they compromise the ability of institutional frameworks to tackle exclusion; and thirdly, they have a malicious and persistent effect on all social processes. Ethnic divisions prevent progressive changes and exacerbate alienation amongst the general public. The effects of ethnic division are most clearly seen in the process of homecoming or return, as ethnic minority groups remain one of the most easily recognizable among the socially excluded groups, largely due to the poorly integrated processes of return to pre-war places of residence. This is visible not only in their limited political participation and access to social services, but also in their alienation from the ordinary social processes in the areas where minorities habitually live.

Thus, large divisions within society do exist, which undermine the efforts to launch some improvement to the cooperation among people. The matrix below makes it possible to see certain aspects of the interethnic relations in the country.

<sup>22</sup> Leopard skin is an expression used for the regional distribution of ethnic groups in Bosnia and Herzegovina (Opacic et. al, 2005 *Living in Post-War Communities*, International Aid Network, 2005).

<sup>23</sup> Salaj, B. *Sozialer Zusammenhalt in Bosnien und Herzegovina*, Friedrich Ebert Stiftung, Sarajevo, 2009

<sup>24</sup> The concept of social capital was popularized in Putnam's *Making Democracy Work: Civic Traditions in Modern Italy* (1993). The concept of social capital is used to explain that the quality of social relationships influences the success of individuals and entire societies in relation to democracy, economic development, educational achievement, health, etc. The bonding social capital keeps together people who are similar with respect to specific characteristics such as ethnicity, religion, social class, etc. The bridging social capital keeps together people that are not similar or do not look alike.

Table 1 – General attitudes among the main ethnic groups

% of full acceptance (March 2008)			
	Bosnyaks	Croatian	Serbian
To live in the same country with Bosnyaks	100	48	37,5
To live in the same country with Croatsians	92	100	38,5
To live in the same country with Serbians	90	48	100
To live in the same neighborhood with Bosnyaks	100	46	36.5
To live in the same neighborhood with Croatsians	92	100	36.5
To live in the same neighborhood with Serbians	91	43	100
To have a boss who is Bosnyak	100	40	26
To have a boss who is Croatian	90	100	27.5
To have a boss who is Serbian	88	41	100
To have Bosnyaks' children that go to school with your children	100	44	36
To have Croatsians' children that go to school with your children	92	100	37
To have Serbians' children that go to school with your children	90	43.5	100
To have member of the family that get married with Bosnyak	100	22	13
To have member of the family that get married with Croatian	28	100	17
To have member of the family that get married with Serbian	27	25	100

Source: EWS statistics, [www.undp.ba](http://www.undp.ba), 2008

The above mentioned figures show that the level of distrust between the different ethnic groups is still very high. This makes any formal cooperation arrangement extremely difficult to implement, since everybody (especially political representatives) have to be careful about moves related to other ethnic groups. These attitudes are converted into other aspects that are relevant for social inclusion: (un)employment policies, education, health protection, and the social security system. Current policies in the area of social inclusion usually do not take into consideration

this aspect, since all three nations (Bosnyaks, Serbians and Croatsians) are *declaratively constitutive* within the country and at all administrative levels.

### **Consequences of Current Policies**

The rising inequality, economic insecurity, and social exclusion undermine social cohesion and economic growth, leading to increasingly more fragile societies, often contributing to social disintegration, and in some cases – even instigating conflict. Unemployment, poverty, and discrimi-

nation are all important factors in social exclusion and must be addressed comprehensively, if social stability and increasing levels of social and economic welfare are to be achieved and sustained for all members of society. Almost 1/5 of the population in Bosnia and Herzegovina falls below the poverty line, while additional 30% have incomes just above it. While the official unemployment rate is estimated to stand at almost 40%, the Labor Force Survey, using ILO methodology, estimates unemployment at 23,4%. Discrimination is present everywhere, mostly based on the ethnic and political background as described in the previous section.

It is believed that people live in poverty, if their income and resources are insufficient

to such an extent that prevents them from achieving the standard of living that is accepted in any society. Because of their poverty, they can be denied decent jobs on the pretext of the lack of employment, which results in low income, poor living conditions, inadequate healthcare and barriers to lifelong learning, and to cultural, sports and recreation opportunities. Poor people are often excluded and marginalized in terms of participation in many societal activities (economic, social and cultural). The absolute level of poverty in Bosnia and Herzegovina is still very high in comparison to other countries in Europe. The table below shows the percentage of population that lives in absolute poverty<sup>25</sup>.

**Table 2 – Poverty level in B&H**

% of general population that live in poverty	
<b>Bosnia and Herzegovina</b>	18,56
<b>Federation of Bosnia and Herzegovina</b>	17,39
<b>Republic of Srpska</b>	20,23
<b>Brcko District</b>	25,03

Source: Household expenditure survey, 2008

The highest poverty rate is among younger adults (especially in FB&H), and among the oldest population (particularly in the Republic of Srpska). Also, the poverty increases with the increasing number of children. The household expenditure survey data show that poverty is mostly affecting following groups: families with more than 2 children, older individuals, people unable to work (i.e. people with disabilities), the unemployed, and people with low levels of education.

Social exclusion is a much broader concept of poverty, and implies the process through which certain individuals or social groups are pushed to the edge of society, depriving them from rights and chances in their efforts to live a decent life with full participation in society on

the grounds of their ethnic origin, age, or gender differences, disability, financial problems, lack of formal employment, and lack of education. The methodology of calculating the social exclusion through the respective index (Laeken indicators) was used in 2006. For more, see the Appendix containing the main indicators.

The general index of social exclusion (HSEI)<sup>26</sup> indicates the interdependence of living standards, health status, education, participation in society, access to services, and

<sup>25</sup> Absolute poverty is defined as the level of consumer expenditure, which is lower than a certain threshold (the general poverty line for 2007 in Bosnia and Herzegovina is determined by the individual, and marks a revenue below 2857.31 KM annually (238.10 KM per month), while the extreme poverty line is below 1005.68 KM (83.6 KM per month). Source: Household expenditure survey, December 2008.

<sup>26</sup> National Human Development Report (NHDR), 2007

the provision of such services. The general index of social exclusion in BiH shows that 50.32% of the population is socially excluded in at least one of these forms.

The index of extreme social exclusion (HSEI-1) is estimated to measure the total social exclusion of the population in B&H. Its estimated value in 2006 was 21.85%, which means that almost 22% of all citizens are excluded from the most fundamental processes and needs. Visible differences can be seen between the FB&H (24.53%) and the RS (20.01%), and the urban (19.75%) and rural (23.57%) population.

The Long-term Social Exclusion Index (HSEI-2) differs from the other such indices, as it measures that sector of the population, which has limited choices for improving their situation and puts them at the risk of long-term exclusion. This Index shows that 47% of the BiH population is at risk of long-term exclusion.

#### *Employment and Labor Policies – No Proper Response to the Biggest Economic and Social Challenge*

The labor market in BiH is characterized by: 1) a very low rate of formal employment and a high share of informal employment, and 2) a high unemployment rate and inactivity of the working age population. The educational structure of the country's labor force (employed and unemployed) shows that 85.7% of the working-age population has primary or secondary education. The most important problem lies in the huge number of inactive people in the working age population. Less than half of the working-age population (15 years +) was active (43.9%) in B&H in 2008.

The employment rate in 2008 was 33.6% and increased by 3.9 percentage points in a three-year period, primarily in the RS. The same is more than two times less than the employment rate in the EU (65.4% in the EU-27 in 2008). For example, the employment

rate among the new EU member states was as follows: 55.7% in Malta, 57.3% in Hungary, 57% in Poland and 58.8% in Romania. Employment growth in the EU-15 average was 1.6% annually (Ireland 3.6%) and 2% among the new EU member states.

The unemployment rate in Bosnia and Herzegovina was 23.4% in 2008 (26.8% for women), which indicates a decrease from the previous period (25.2% in 2007, and 28.5% in 2006). These figures provide sufficient evidence that unemployment currently represents the biggest economic challenge for the fragile Bosnia and Herzegovina state.

Labor legislation in B&H is the responsibility of the constituent entities and the Brcko District themselves. There is not single law in the field of labor relations at the level of the state, but the respective entity laws to a greater extent have been harmonized. This cannot be said, however, about the rules of procedure within the Federation and the cantons, as the cantons were legally obliged to harmonize their laws with the Federation of Bosnia and Herzegovina. Although a total of 178 institutions in B&H are dealing with labor and employment issues, the results of their efforts are more than disturbing. The prevalent role of the outdated public institutions functioning in the area of employment is still dominant, although they have not been entrusted with any active function as far as employment policies are concerned.

#### *The Social Security System is Fragmented With Overlapping Functions and Beneficiaries*

The jurisdiction over social protection in the Republic of Srpska is centralized, while it in the Federation B&H it is divided (both on the level of cantons and the level of the constituent entities). In accordance with the principles of the Social Charter, each individual, who does not have adequate sources of revenue, has the right to social assistance. These principles are

often neglected due to the variety of beneficiaries who are entitled to rights based on their status (war veterans, displaced people, etc.).

The social security system in B&H includes social security insurance (unemployment insurance, health insurance, Pension and Disability Insurance), and is entitled to social protection, which includes the protection of families with children, as well as veteran protection. The focus in the previous period was on strengthening the social security insurance and veteran protection, with a negligible focus on social protection and protection of families with children.

The social security system is very fragmented with many overlapping jurisdictions within the various institutions on the territory of each of the entities. In the FB&H, the founding blocks of the system of social protection are the following institutions:

- Ministry of Labor and Social Welfare;
- Ministry of Displaced Persons and Refugees;
- Ministry for Issues of Veterans and Disabled Veterans;
- Economic and Social Council and the Trade Unions;
- municipalities and cantons (responsible for the centers for social work).

In the Republic of Srpska, it is the following institutions that make up the social protection system:

- Ministry of the Family, Youth and Sports;
- Ministry of Health and Social Welfare;
- Ministry of Displaced Persons and Refugees;
- Ministry of Labor and Issues of Veterans;
- Ministry of Education and Culture;
- The municipal centers for social work and social services and child protection;
- Public Fund for Child Protection.

In Bosnia and Herzegovina, there are 116 Centers for Social Welfare (71 in the Federation of Bosnia and Herzegovina and another 45 in the Republic of Srpska).

It is visible that many institutions deal with social protection issues, focusing mostly on beneficiaries, rather than on the problem as stated in the Social Charter. The reasons why lie in the fact that war veterans and displaced people/refugees represent a significant portion of voters, and this is a fact, which every government bears in mind when considering possible changes in the current social policies.

In the period 2006–2008 there was an increase in the total general budget revenues in Bosnia by more than 2.6 billion KM. This increase was mostly spent in the sector of social protection, including veteran protection and transfers to individuals, whereby a sum of KM one billion was channeled into the veteran protection sector. Bosnia and Herzegovina spends 4% of its GDP on cash benefits through social welfare programs that are not based on social security contributions. With such a significant part of the GDP spent on cash benefits, B&H is one of the countries, registering the highest rate of social welfare benefits consumption in Europe and Central Asia (ECA), since its expenditures are higher than the average for the countries in the region (1.6%), or the OECD countries as a whole (2.5%). This level of spending on cash benefits through social welfare programs that are not based on contributions is fiscally unsustainable in the long run. This situation is very dangerous for the country's fragile system of social protection.

#### *The Educational Sector – Without Any Clear Vision or Reforms*

The current state of education at large and the educational sector in particular is far from satisfactory in B&H. According to the statistical report, the percentage of the totally illiterate population in the country is 5.5%. Furthermore, 10.2% of the population in Bosnia and Herzegovina lives without any school facilities. 30.8% of the population has completed



primary school, 50.2% have secondary school education, while around 9% of the B&H population has completed higher education. The low level of education in Bosnia and Herzegovina is the main reason for the low rate of employment and the high unemployment rate. The specific issue is the lack of skills and knowledge, even when we consider people with a high school diploma for secondary education. These people are generally unattractive to employers since many of these people previously had specialized skills for jobs that are now gone with the country's process of transition and privatization. Access to education beyond that of the regular basic school educational level is particularly important for those who need re-training or the acquisition of knowledge and skills. In B&H, vocational education is not systematically developed nor are there any available funds for the establishment of vocational training facilities. Lifelong learning has not become an integral part of the educational system yet, nor is there any clear government vision in this area.

Expenditures on the educational sector in B&H, as a proportion of the GDP, are higher than in some other countries in the region and are only slightly lower than the average for the OECD countries. The high percentage of the GDP, which is currently being allocated to education, is mostly the result of the fragmented structure of the sector and the duplication of functions. The educational reform, which was aimed at lowering the expenditures with an increasing efficiency rate, has proved difficult to implement. There are 13 budgets for education altogether (2 of the constituent entities, 10 cantonal, and one in the Brcko District), which are financed from public entity funds on the cantonal and municipal level and the level of the Brcko District. Educational spending in the Republic of Srpska stands at 4% of the GDP, while it amounts to more than 6% of the GDP in FB&H (in most

cantons the allocations for education are the biggest item on their budgets). Salaries and allowances of the educational sector employees make up the highest share of educational spending – about 88%, while 8% is spent on material costs, with only 4% for capital investment. Spending on research and development at university level remains negligible. This structure of educational spending leaves little room for educational materials, teacher training and other measures to encourage the improvement of the learning process. Owing to the complex institutional structure, spending on education is high compared with the average for Southeastern Europe, but above all it is inefficient and produces low overall results in the educational sector. The special problem is related to the quality of education – outdated curriculum, unskilled teachers, no teaching materials and poor conditions. Elementary and secondary school education is free of charge, but poor people have problems with the access to it, due to the lack of support for transport, catering, books, etc. The primary school attendance rate is 98%, while the rate of attending secondary school is much lower and stands at 79.3%. The attendance rate for the university level is around 20%, with huge number of drop-outs and prolonged graduation time. The reasons are seen in the fact that many students do not enjoy either the material conditions or the necessary financial support, which forces them to leave their university education or to start working while studying.

#### *Health Protection – (Un)equal Opportunities for the B&H Citizens*

Plenty of evidence from developed and developing countries suggests a two-way relationship between health and the economy. Economic growth has a positive effect on health, whereas the better health of the population raises economic productivity and contributes to growth.

Healthcare in Bosnia and Herzegovina is free in the public health sector, with some mandatory participation by patients in the form of health insurance contributions. This refers to the compulsory health insurance for employees, the health insurance of whom is paid through automatic deduction of funds from their salaries, or to people who are insured by virtue of their status, e.g. retired people, children, students, etc., the health insurance of whom is paid by respective public budgets. The system of voluntary health insurance is not developed yet, and the government has not announced any changes in this area, either. About 95% of all public health costs are covered by public health insurance. Inequality in the financing of health services and the large share of direct payment service users, who mostly make informal payments to receive such services, generate fears about the access to healthcare in general, especially on the part of socially excluded people. Health services consumption in poor households makes up one-tenth of their overall spending, and this percentage falls to 5% for the richest households. Official data indicate that the public health sector consumes about 9% of the country's GDP, while it is estimated that another 3% of the GDP is spent in the private sector health services. What is of grave concern in this sector is the still unresolved status of private clinics and general practices, and their continuing non-inclusion in the healthcare system.

The health insurance coverage of the population in the Federation in 2007 was at the level of 83.65%. The highest level of coverage is observed in the Canton of Sarajevo and amounts to 93.82%, while the lowest level has been registered in the Herzeg-Bosnia Canton – 64.53%. What is also disturbing is the fact that only 57.65% from the total number of registered unemployed have health insurance coverage.

In the Republic of Srpska, around 70% of the population has health insurance, while health insurance contributions are not paid or are irregularly paid for about 25% of the employees. According to data submitted by the Health Insurance Fund in the Brcko District, the compulsory health insurance covers 90.26% of the district population. According to research conducted in 2007<sup>27</sup>, 96.2% of the people with disabilities have health insurance. Internally displaced people and returnees experience difficulties to access health services, mostly due to bureaucratic obstacles. Roma people visit doctors three times less than other groups. The percentage of Roma who are not vaccinated (41%) is five to ten times higher than the percentage of the majority of the people who live in the same area.

*The System of Pension Social Security Contributions and Disability Insurance in B&H is Both Fragile and Unreformed*

The pension system plays an important role in the prevention of poverty and social exclusion among the elderly, individuals with disabilities, and other population groups with limited ability to participate in the country's economic activity, due to the lack of access to paid employment.

The elderly population (individuals who have turned 65 and over) has a 15.1% share of the Bosnia and Herzegovina population. The situation is more problematic in the Republic of Srpska where 18.5% of the people are older than 65 years of age, while 13.3% of the population in FB&H is older than 65. Structural indicators of the population show that the Republic of Srpska is the geographical area with the oldest population, as the ratio of adults to the number of children (i.e. the ratio between the number of people over 65 and

<sup>27</sup> Research done within the process of elaborating the policy in the area of disability, IBHI 2008

those younger than 6 years of age) was 3.9 (whereas at the same time, this indicator was 2.3 in the FB&H). This constant increase in the number of elderly population, given the unchanged number of employees, is constantly putting pressure on the existing pension and disability scheme (PAYG), thus putting to the test the limits of its sustainability.

According to the Constitution of Bosnia and Herzegovina, the system of pension and disability insurance is the responsibility of the each constituent entity. There is no state-level organization of pension and disability insurance or any uniform policy at the state level. Special laws of the individual entities define the responsibility of each of the entities (and cantons in FB&H) in the area of the Pension Contributions system and the Pension and Disability Insurance.

The number of pensioners is rapidly increasing, decreasing the gap between the number of employees and number of pensioners. The process of privatization in the last 10 years was accompanied by a process of sending large numbers of people to early retirement, as a "painless" way of dealing with social problems and redundancy in privatized companies. The current situation regarding pensions and disability insurance shows how moves of this sort are always destined to rebound like a boomerang. According to the RS pension-fund, there is a shortfall of funds for 2009 which has forced the fund to use its reserves in order to cover the insufficient amount from the PAYG<sup>28</sup> scheme. Although the situation in the Federal Pension Fund remained stable in 2009, there are some indications of future problems, due to the decrease in the amount of collected contributions. This

brings us back to the inevitability of the pension system reform, as the pay-as-you-go system is clearly inadequate, given that the numbers of pensioners and of formally employed individuals are much the same and sustainability of the system is systematically put to the test every new month.

More than half of the population aged 65 and older, including rural-dwellers, low-wage self-employed, and unemployed women, are excluded from social security coverage, despite the fact that pension expenditure levels are among the highest in Europe and the region, when calculated as a percentage of the GDP. The huge problem within the pension system can also be seen both in the vast number of informal workers, who do not pay any contributions whatsoever, and in the under-reporting of actual employee wages by business, which only pays the minimum level of pension contributions.

The government's preference as to the manner and way, in which the reform of the pension system should take place, remains entirely unclear. Changes are urgently needed to the first pillar of the pension system, based on the method of financing pensions from current receipts. For the time being, the issue of developing a second pillar, based on compulsory additional pension social security coverage, must be left aside, as experience in other countries shows that funding problems appear as soon as there is a budget deficit in the first pillar of the pension system. Other conditions are also required, which have not been sufficiently developed here yet. It is important, however, that parallel to the reform of the first pillar, the third pillar be also introduced – that of the voluntary pension insurance – with the respective regulatory framework. The introduction of voluntary insurance should be oriented towards those who think that public pension insurance will not provide them with sufficient security in their

<sup>28</sup> Pay as you go – a scheme based on the distribution of contributions collected on a monthly basis. The pension system in Bosnia and Herzegovina is a PAY-AS-YOU-GO (PAYG), a mono-pillar, publicly financed system based on the mandatory inclusion of all employed individuals. The pension system insures the participants on the basis of age, disability, death, and survivorship. All four risks are funded through a single contribution payment.

old age. Although some forms of such insurance already exist, we are very far from a legal framework and environment, which would promote and extend this form.

### ***Instead of a Conclusion***

Bosnia and Herzegovina is in the process of elaborating new strategic documents: the 2008–2013 Development Strategy of Bosnia and Herzegovina and the Strategy of Social Inclusion in the 2008–2013 period. The process of drafting these strategic documents has been approved by the B&H Council of

Ministers, with the consent of both entity governments. However, since the Strategy has not been completed yet, it is far from clear how this document will change the current situation in the period it is supposed to cover. The previously mentioned causes for and consequences of social exclusion will be very hard to change in the forthcoming period without a clear-cut social agreement between all stakeholders within society. Besides, the main question still remains: Is there a genuine commitment on the part of all governments in Bosnia and Herzegovina to social inclusion first of all?

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## Annex

## Laeken indicators for Bosnia and Herzegovina (NHDR, 2007)

Laeken indicators - NHDR 2007 (Social inclusion in B&H)		
Subpopulation		Value
<b>Indicator 1a</b>		
At-risk-of-poverty rate by age and gender	BiH	23.7%
	0-15	23.8%
	16-24	22.5%
	25-49	21.1%
	50-64	23.5%
	65+	31.4%
	Females	23.7%
	Males	23.7%
	Females 0-15	24.0%
	Females 16-24	21.4%
	Females 25-49	19.9%
	Females 50-64	24.8%
	Females 65+	32.7%
	Males 0-15	23.7%
	Males 16-24	23.6%
	Males 25-49	22.3%
	Males 50-64	22.2%
	Males 65+	29.6%
<b>Indicator 1b</b>		
At-risk-of-poverty rate by most frequent activity and gender	Employed	9.0%
	Self-employed	25.8%
	Unemployed	37.2%
	Retired	24.0%
	Other economically inactive	28.0%
	Females	23.7%
	Males	23.7%
	Females Employed	7.0%
	Females Self-employed	21.1%
	Females Unemployed	26.0%
	Females Retired	20.9%
	Females - other (economically inactive)	28.2%
	Males Employed	10.2%
	Males Self-employed	27.1%
	Males Unemployed	43.6%
	Males Retired	26.5%
	Males - other (economically inactive)	27.6%



Subpopulation		Value
<b>Indicator 1c</b>		
At-risk-of-poverty rate by household type	One person household, under 30 years of age	(7.1%)
	One person household, between 30 and 64 years of age	19.2%
	One person household, 65 years of age plus	28.8%
	One person household, female	28.6%
	One person household, male	17.3%
	One person household, total	24.7%
	2 adults, no dependent children, at least one adult 65 year and more	36.1%
	2 adults, no dependent children, both adults under 65 years of age	21.7%
	Other households without dependent children	21.5%
	Single parent households, one or more dependent children	22.6%
	2 adults, one dependent child	18.1%
	2 adults, two dependent children	19.4%
	2 adults, three or more dependent children	23.1%
	Other households with dependent children	25.8%
<b>Indicator 1d</b>		
At-risk-of-poverty rate by tenure status	Owner or rent free	23.2%
	Tenant	26.9%
<b>Indicator 1e</b>		
At-risk-of-poverty threshold (illustrative values)	One person household	1,700 KM
	Two adults and two children households	3,570 KM
<b>Indicator 2</b>		
Inequality of income distribution S80/S20 quintile share ratio	BiH	8.51
<b>Indicator 3</b>		
At-persistent-risk-of-poverty rate by gender (60% median)	BiH	72%
	Male	70%
	Female	73%
<b>Indicator 4</b>		
Relative at-risk-of-poverty gap	BiH	29.4%

Indicator 5		
Regional cohesion (dispersion of regional employment rates)	BiH	42.7%
	Male	54.2%
	Female	31.2%

Subpopulation		Value
Indicator 6		
Long-term unemployment rate	BiH	17.2%
	Male	16.3%
	Female	18.8%
Indicator 7		
Persons living in jobless households		20.9%
Indicator 8		
Early school leavers not in education or training	BiH	65.1%
	Male	71.1%
	Female	59.1%
Indicator 9		
Life expectancy at birth	Male	71
	Female	77
Indicator 10		
Self-defined health status by income level	BiH	
	Lowest	9.2%
	2nd	9.7%
	3rd	5.0%
	4th	5.6%
	Highest	2.6%
Indicator 11		
Dispersion around at-risk-of-poverty threshold	BiH-40% of national median	10.7%
	BiH-50% of national median	16.8%
	BiH-60% of national median	29.9%
Indicator 12		
At-risk-of-poverty rate anchored at a moment in time	BiH	75%

<b>Indicator 13</b>		
At-risk-of-poverty rate before social transfers	BiH-Pensions included	25.5%
	BiH-Pensions excluded	38.5%

Subpopulation		Value
<b>Indicator 14</b>		
Inequality of income distribution Gina coefficient	BiH	40.1%
<b>Indicator 15</b>		
At-persistent-risk-of- poverty rate by gender (50% median)	BiH	70%
	Male	70%
	Female	71%
<b>Indicator 16</b>		
Long-term unemployment share	BiH	68.3%
	Male	64.7%
	Female	74.3%
<b>Indicator 17</b>		
Very long -term unemployment rate	BiH	14.5%
	Male	13.9%
	Female	15.7%
<b>Indicator 18</b>		
Persons with low educational attainment	BiH	41.7%
	Male	30.2%
	Female	53.1%



## Partnership for Social Inclusion in Croatia

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### Introduction

The concept of social exclusion has received substantial attention in the current scientific and political debate. Regardless of the fact that there is no clear and unambiguous definition of the concept, it is generally accepted that social exclusion is a multi-dimensional phenomenon, which weakens the relationship between the individual and the community. This relationship can have an economic, political, socio-cultural and even spatial dimension. The larger the number of dimensions, to which an individual is exposed to, the more vulnerable he/she becomes. Exclusion is most commonly spotted in the access to the labor market, the most essential social services, the realization of human rights, and the social safety net. Social exclusion is often linked to unemployment and poverty, but these are not its only causes.

The United Nations Development Program (UNDP) in Croatia conducted a research on Social Exclusion in Croatia in 2006 (UNDP Croatia, 2006<sup>29</sup>). The research consisted of three components: a) The Quality of Life Survey (on a sample of 8,534 respondents; representative at the county level); b) Assessment of social welfare service providers, and c) Focus group discussions with 20 social groups, which are at risk of social exclusion. Focus groups included individuals with physical disabilities, individuals with intellectual disabilities, parents of children with disabilities, long-term unemployed, the homeless, returnees, single parents, children without parental care, victims of domestic violence, Roma people, sexual minorities,

the elderly, people of low education levels, and youth with behavioral difficulties.

According to the three components of deprivation<sup>30</sup> used in this survey, every fifth Croatian is socially excluded (11.5%). It is interesting that about the same percent of people (11%) were found to be poor in the 2006 World Bank study on the Living Standard Assessment, which points to the tight correlation between poverty and social exclusion. In terms of self-perception, 20% of Croatsians feel to be socially excluded. Self-perceptions of social exclusion are directly correlated with education, gender, and living area. People with primary education or less and even those with secondary education, feel socially excluded more frequently (61.3% and 37.1%, respectively). Women are twice as likely to feel socially excluded than men (66% as opposed to 34%), while rural dwellers are three times as likely to report feeling socially excluded (75%) in comparison with urban dwellers (25%).

As a mean for improvement of the social picture in Croatia, 10 organizations from Croatia and abroad decided to establish a consortium and launch a project entitled *Partnership for social inclusion*. The main partners are: the Institute of Public Finance, Zagreb – a public institution; the Croatian Employment Service – a public service; ZaMirNet – a citizens' association; the Union of Autonomous Trade Unions of Croatia; the Forum of European Journalism Students – an NGO; Most – an NGO for improving the quality of life; Shine – the Association of People with Mental Disabilities; the Women's Network Croatia; the Association of Free Trade Unions of Slovenia, and The Austrian Trade Union Federation.

The proposed Project consists of five sub-components that are intertwined and mutually reinforcing.

<sup>29</sup> UNDP (2006): *Unplugged: Faces of Social Exclusion in Croatia*; UNDP (2006) *Poverty, Unemployment and Social Exclusion*, Zagreb: UNDP.

<sup>30</sup> In the survey, people who experience all three areas of deprivation: economic, labor and socio-cultural, are considered to be socially excluded.

### ***Improving Coordination and Co-operation of All Stakeholders (Horizontal and Vertical)***

Croatia is on track for the implementation of most of the Millennium Development Goals (MDG). The government has taken a series of steps to ensure that the MDG implementation drive will be coordinated both with the national priorities and with the European Union (EU) accession requirements. The Republic of Croatia started the elaboration, drafting, and implementation of the various documents and strategies for full participation in the open model of coordination aimed at fighting poverty and social exclusion in the EU accession process. For this reason, Croatia signed various documents with the European Commission such as the *Joint Memorandum on Social Inclusion (JIM)* and the *Joint Assessment of the Employment Policy Priorities of the Republic of Croatia (JAP)*. For the purpose of preparing the JIM and JAP, working groups were formed consisting of representatives of line ministries and other state bodies, local authorities, civil society organizations, labor unions and employers' associations. JIM represents the first step in the application of the EU common goals in the fight against poverty and social exclusion through national policies. An action plan for JIM's implementation has been developed for the 2007–2009 period. JAP tackles the employment policy and the reorganization of institutions in accordance with the European Employment Strategy and the implementing mechanisms of the European Social Fund. JAP was finalized in 2008.

Poverty and inequality have increased in Europe as a whole over the past few decades and this increase has been marked during the past decade in the transition countries in particular. According to Eurostat, the "at risk of poverty" rate in Croatia was 18% in 2005, while the EU average was 25%. Poverty in Croatia is par-

ticularly prevalent among the elderly, people with lower education, and the unemployed and is usually of a long-term in nature.<sup>31</sup>

Regardless of the significant improvements to the social welfare and social security and insurance systems in Croatia, one can find insufficient coordination and co-operation of social stakeholders at the various levels. It could be caused by, but also be result, of the lack of empathy and/ or low level of the interest manifested by the community and the various stakeholders to the problems of social exclusion and the needs of disadvantaged and vulnerable groups. Furthermore, there are the cases of insufficiently clear division of authority and responsibility for some user group and/ or provision of particular social service, which undermines the quality, coverage, and accessibility to required goods and services. The management of relationships between services tends to be conducted as a series of bilateral relationships. Thus for instance, the centers for social welfare may meet with representatives of the healthcare or educational systems, but there is an absence of multi-agency coordinating mechanisms for planning, implementing, and monitoring social services. The same is observed in the relationship with respect to the government at its various levels: ministries, county, and municipal levels alike. All causes mentioned above indicate a situation where some service users have become "lost" in the system. The problems faced by users of social care services often require a multi agency response. Currently, there are no mechanisms capable of facilitating the multi agency type of planning at the local level. There is a need for a clearly identified lead social care agency entrusted with the responsibility for planning and negotiating with other agencies to develop the network of services needed at the local level.

<sup>31</sup> Republic of Croatia – *Operational Programme For Human Resources Development 2007 – 2009*, Zagreb: The Government of Croatia.



Thus, it is extremely important to develop and/or improve the cooperation between state and non-governmental organizations in both capacities – as representatives or voices of socially excluded and marginalized groups, and as social care providers – in the implementation of the various programs for preventing and reducing the level of social exclusion, to regularly and sufficiently finance non-governmental organizations and enable participation of NGO representatives in coordination bodies at the national, regional, and local level. As a first step, there is a need to explore the ways to enhance the relationship and cooperation between the Croatian Employment Service (CES) and the centers for social welfare, because current cooperation is insufficient and mostly formal and superficial. The said improvement in the co-ordination and cooperation should enable better employment possibilities particularly for unemployed individuals who are beneficiaries of social assistance, as well as for individuals with disabilities who have a higher level of vulnerability to social exclusion.

Regarding the coordination and co-operation of all stakeholders, the Project envisages:

- activities oriented towards the improvement of the horizontal and vertical co-ordination of various social welfare policy measures and the consistent implementation of those measures (so far often lacking);
- organization of working groups, seminars, and a round table for enhancing the mutual work and cooperation of all stakeholders in the social welfare sector.

### ***Improving Employability (Including the Educational System and the Measures of Active Labor Market Policy) as a Precondition for Enhancing Social Inclusion***

Croatia's unemployment rate (according to the ILO methodology) marked a constant increase between 1996 and 2000 when it reached its peak of 16.1%. Since then, it was gradually decreasing and reached 11.2% in 2006. The rate remains relatively high among young people in the 15–24 age bracket (28.9% in 2006) and among women (12.7% in 2006). Fluctuations of the unemployment rate of the younger population have been very large – from 31.2 per cent in 1998 to 40.1 per cent in 2001 to 28.9 per cent in 2006. The unemployment rate of women reached its peak of 17.9 percent in 2001, but has been decreasing since then to mark 9.9 percent at the end of 2007 (Source: LFS data; Central Bureau of Statistics, Zagreb). According to various sources – UNDP (2006), socially excluded persons in Croatia have very poor educational standards with over a third failing to complete even elementary school and over 60% without any form of secondary education. More than two thirds of welfare recipients have no qualification or have only elementary school education. It would be reasonable to assume that many do not have basic skills of literacy and numeracy; some have had no formal education whatsoever. In this group there is a long term dependency evidenced by the duration of welfare support. The older and less educated recipients are more likely to remain longer in the welfare scheme. The average period of living on welfare support schemes is quite long (almost 5 years). Little movement off welfare appears to occur. Generally people join a welfare scheme and stay on it for long periods of time and the detachment of the group from the regu-

lar labor market is strongly indicated primarily because of their low employability.

Due to the destruction caused by the war and the transition to a market economy, many of the state-owned enterprises in various industrial sectors such as the textile sector have ceased to function altogether or operate with reduced workforce only. Lacking concomitant job opportunities and linkage to opportunities, responses to job loss by workers have led to, among other, job search “discouragement” and participation in the informal economy. As a consequence of the war that began in 1991, in many hinterland areas there was a massive displacement of the population. Little is known about the actual post-war skills structure in those areas. Population movements have been substantial and it still remains unclear as to whether traditional local skills remain available or whether new skills have emerged that may have altered the competitive advantage of these areas.

Many regions are confronted with significant demographic and social problems, such as for example, a large percentage of older people, hidden unemployment, and a large and immobile agricultural population. Many milieus and rural regions, as well as outside these, are confronting economic and social decline, and offer greatly limited potentials for development due to their unfavorable location for labor and capital. Generally, the trend has been one of higher unemployment of women, of older persons (over 50), and also of individuals who have completed 1 to 3-years of vocational secondary school.

Generally, the causes of social exclusion in Croatia are very often linked with low employability, limited employment possibilities, and low educational endowments. Long-term unemployed individuals are very often of a low employability and they are faced with higher risks of falling into penury, while the depreciation of human capital due to unem-

ployment and the weak link with the labor market reinforce the vicious circle of social exclusion and poverty.

Long-term unemployed individuals are disadvantaged in their search for jobs. Having been out of touch with the world of labor, their skills may have become outdated or forgotten, their behavior may be too far away from the business culture, and potential employers may beware of people who have been without work experience for far too long. Furthermore, despite the difficulties of “making ends meet”, unemployed people who have been living on government welfare assistance for a long period of time may find the shift to work life too difficult or scary – all the more so if taking steps to look for a job adds seemingly insurmountable problems, such as child care or transportation.

*Employability* is not simply the capacity of *getting a job*. It involves ensuring that people can adapt to the changing working environment, develop and build their capabilities and meet their career goals. It is a term commonly used to provide a more detailed definition of the key skills. Employability is the main outcome of education and high quality training, as well as the result of a range of other policies. It encompasses the skills, knowledge and competencies that enhance a worker’s ability to secure and retain a job, progress at work and cope with change, secure another job if she/he so wishes or when he/she has been laid off, and enter more easily into the labor market in different periods of one’s life cycle. Individuals are most employable when they have broad-based education and training, basic and portable high-level skills, including teamwork, problem solving, information and communications technology (ICT), and communication and language skills, learning to learn skills, and competencies to protect themselves and their colleagues against occupational hazards and diseases. This com-

bination of skills enables them to adapt to changes in the world of work. Employability also covers multiple skills that are essential to secure and retain a decent job.

Regarding low employability and long-term unemployment – important factors that determine poverty and/or social exclusion – Croatia does not differ much from other countries in transition, but insufficient attention is paid to enhancing the employability of the long-term unemployed people and persons exposed to social exclusion. A considerable number of youths in Croatia *drop out* of secondary and higher educational institutions, which endangers their employability and limits their opportunities of finding employment and attain professional promotion.

Particularly exposed to low employability are the people with disabilities. According to the National Program for Employment, an investigation conducted in 2001 on disability in Croatia showed that 9.7% of the total population is comprised of disabled people, out of whom 11.5% are men and 8.0% are women. The percentage of disabled persons increases with age. In the 45–49 age bracket, 12.7% were disabled, in the age bracket of the 65 - 69 years old, 19.3% were disabled, and among individuals older than 85 years of age the percentage was 27.5%. Approximately 2.5% of the unemployed are people with disabilities. A law recently passed has introduced a quota system according to which employers are required to employ 2% of people with disabilities out of their total workforce. In Europe, Croatia has nearly the smallest percentage of disabled individuals of working age who are permanently employed (7.4%). The others receive assistance within the social welfare system. The unemployment rolls of the Croatian Employment Service include 7,500 such people, of whom 2.5% are individuals with disabilities, and out of whom 60% are men.

Succinctly, there is no doubt that the best protection people could obtain against unemployment, poverty and social exclusion, is their own employability. Thus, with further education and by acquiring new knowledge and skills, which improve their employability, people can find a job. Only when employees realize that modified competences are both called for and rewarded in company routines do they receive incentives to begin an active pursuit of further educational schemes.

Acting locally can also open up the possibility that these new development opportunities and job openings can be more *equitably distributed* – giving better prospects for the inclusion of the young, the minority ethnic groups, the unemployed, and the socially excluded in general. These local actions have to be seen as *one component* within the full package of activities that make economic development and employment possible. There is a clear role for policy intervention to initiate and support local employment development where it has not taken roots so far.

What is planned as measures for improvement in this subcomponent of the Project are various workshops, round tables, as well as the user's *Guide for Enhancing Employability*.

### ***Information, Protection of Rights and Improved Accessibility to these Rights in the Social Welfare System, Social Security and Insurance***

Social services are intended for those individuals who are faced with life difficulties or those who, due to physical and mental handicaps, have specific needs, which they cannot satisfy on their own or with the assistance of their family (children without appropriate parental care, children and youth with behavior disorders, elderly and infirm persons, people with disabilities, substance addicts and abusers, former inmates, victims of violence, migrants,

refugees, etc.). Among the alternative forms of social services, the most widespread such service is foster care (primarily in the northern areas of Croatia), alongside the establishment of small housing units and centers or clubs for persons with special needs.

Social services are insufficiently developed and there is a deficit of both institutional and non-institutional services. It is necessary to develop services that will be better suited to the needs of the various user groups (including the possibility of choice) and to expand the social services network, so that they better cover all areas of Croatia. Furthermore, knowledge of the available services and rights significantly vary. In some user groups and/or regions and municipalities, the awareness of the available services and rights was limited merely to information about the existence of these services and rights, but there was a lack of information as to what exactly they provide in practice.

A strong impetus to social services deinstitutionalization was given by various non-governmental organizations and associations. However, the legal provisions aimed at social services deinstitutionalization are insufficient; what is needed rather is a strong support on the part of the state and a different social climate, where a new concept of social services and their providers can be implemented. For the purpose of better accessibility and quality of services, it is necessary to decentralize and deinstitutionalize social services to a more significant extent considering all *pro et contra* arguments. The goal is for the users, if appropriate, to receive services in their homes and local communities (*community-based services*), considering each individual's health problems and the proper care needed, thus creating conditions for integration and rehabilitation within the community itself. In order to achieve the further development of social services, the state, the private sector, and

civil society organizations will have to cooperate and establish partnerships. Equally, there should be continuing efforts toward promotion of tolerance and the inclusion of people with disabilities or persons with developmental disabilities into regular social activities. Obviously, what is needed is a strong support from the state and a different social climate where a new concept of social services and their providers will be realized. During the 1990s, the social care services system in Croatia was centralized and very few NGOs were involved in social service provision. Following the 2001 legislative changes, some social service decentralization took place (primarily of services for the elderly and the infirm) and opportunities opened up for the private profit and non-profit sectors to enter this area. Neither non-governmental organizations (NGOs), nor any other kind of non-state provision of social goods, should be seen as an alternative to state provision of social services. Even though they are not necessarily more effective than governmental organizations, the participatory approach of NGOs can improve the quality of services and play an important role in service provision. The growing popularity of the NGOs in the development field seems to be strictly associated with the emergence of a so-called "New Policy" Agenda over the last twenty years. What underlies the New Policy Agenda – an agenda which has deeply influenced both bilateral and multilateral actors – is the idea that private sector initiatives are intrinsically more efficient than public initiatives, so that private forms of intervention should be seen as the preferred carriers of policies, aimed at increasing social welfare. However, in order to comply with donors' concerns with the effectiveness and sustainability of projects, the activities of the NGOs focus on clearly measurable and easily attainable short-term targets at the expense of longer-term impact. Besides, raising doubts

about the effectiveness and efficiency of NGOs, some authors also discuss the broader political consequences of NGO action.

The Project is an opportunity to make a thorough inventory of accessibility and protection of social rights in individual areas, that is to say – the problems of their actual implementation that have been noticed so far, namely: the labor market, rights resulting from employment, the rights to pension and properly functioning healthcare system, rights of the disabled, rights within the system of social care and social assistance. The activities in the Project related to information, protection of rights, and improved accessibility to the social welfare system are:

- helping to define and/ or improve the fairness of service provision in relation to actual needs by developing clear eligibility criteria and ensure the provision of accessible information about the provision of social services;
- collecting the attitudes and opinions of all stakeholders by asking them to propose improvements in the form of amendments to the legal provisions aimed at enhancing the quality and accessibility of social services;
- participation into the process of preparation of effective service performance criteria, development of good practice standards, introduction of a code of professional ethics for social service providers, and the establishment of a supervision system.

In connection with the activities mentioned above, the project participants elaborated *the Guide for the Social Impact Analysis* (available both in English and Croatian language on the following web pages: [www.socijalna-ukljucenost.net](http://www.socijalna-ukljucenost.net) and [www.ijf.hr](http://www.ijf.hr)). The Guide is organized like that: after the *Introductory Notes* (Section 1) follows Section 2,

which introduces the general background of the reforms in Croatia. Section 3 presents a definition of the SIA and establishes the conceptual framework. Section 4 presents an approach to SIA by reviewing 10 basic elements underlying the sound analysis of poverty and the social impact of reforms. Section 5 closes with a brief conclusion entitled *The Way Forward*. A matrix and checklist of SIA analytical questions are provided in the annex, along with a case study example.

### ***Alleviation and Prevention of the Over-Indebtedness of the Population***

There is a basic assumption that the over-indebtedness of the population is one of the most important determinants of social exclusion. According to the Croatian Central Bank estimation, the credit indebtedness of the population in Croatia increased from 32.1% of the GDP at the end of 2004, to 35.9% at the end of 2005, and around 40.6% at the end of 2006. In contracting debt, around 96% of the citizens used commercial bank loans. The ratio of household debt to the estimated annual net wage bill went up from 105.2% at end of 2005 to 117.3% at end of 2006. In the first 11 months of 2007, the amount of credit extended by commercial banks to the citizens increased by HRK 24.0 billion, from HRK 187.8 at the end of 2006 to HRK 211.8 billion at the end of November 2007. Almost one third of this increase is caused by mortgages, the amount of which increased from HRK 7.6 billion to HRK 44.2 billion. The amount of consumer credit for the purchase of vehicles increased by 1.6% only – from HRK 9.04 billion to HRK 9.18 billion. Credit cards debt marked a significant increase by 27% to HRK 4.8 billion. Credit growth is mostly due to the favorable loans offered by commercial banks. The average indebtedness per employed person in Croa-



tia in recent years has grown from around HRK 23,000 (Euro 3,150) at the end of 2001, to HRK 49,000 (Euro 6,700) at the end of 2004, to HRK 58,000 (Euro 7.950) at the end of 2005, and now stands at more than HRK 72,000 (Euro 9,700). Notwithstanding this fact, household debt in Croatia is still far below the household debt level in the EMU countries (55% of GDP at the end of 2004), but is half as large as that in the New Member States (16% of GDP at the end of 2005). In Croatia it may be assumed that young, educated people are the most heavily indebted, because they represent the most creditworthy segment of the population, but are also the one with the lowest amount of assets.

However, in the event of currency crises the majority of borrowers with below-average income would have debt payment problems. As expected, debt-service burdens continue to plague lower-income families disproportionately. The evidence suggests that the income of the poor does not allow them to save (only 4% of the poor report positive savings during the period under observation). Only 13% of the poor have had access to borrowing (from either the banking system or intermediaries other than relatives) during the last 12 months. The poor do not save much and barely borrow on the formal credit markets, which exposes them more to loan-sharking and high income rates. The combination of low capacity to save with limited access to borrowing suggests that the poor are also vulnerable to shocks and hence to income fluctuations. From the point of social exclusion and the revenue security of citizens it is particularly useful to analyze such an indicator according to deciles of available revenues. The biggest loan burden is observed from the sixth to the eighth deciles of gross available income.

In the UNDP Survey (UNDP, *Quality of Life and Risks of Social Exclusion in the Republic of Croatia, Quantitative research on general pop-*

*ulation*, 2006) the respondents were asked if their household was indebted in the previous year, in other words if they were unable to pay for accommodation (rent, mortgage, or loan installment) or utility bills (e.g. electricity, water, gas, etc.) as scheduled. Every fifth Croatian household (22.0%) was indebted in the previous year, in other words it was unable to pay for its accommodation or utilities as scheduled. Less than a tenth of the households (6.7%) were indebted because of their inability to pay for accommodation, while every fifth household (20.5%) did not pay for utilities on time. In general, Croatian citizens had difficulties in paying utilities more often than in paying the rent or mortgage/loan installment, which is not surprising, considering the fact that two thirds of the respondents own their own home. The majority of households that could not pay for accommodation on time also had difficulties in paying for utilities. This is a particularly pressing problem in one-parent families.

Furthermore, because of the weak enforcement of payment discipline, not only the poor in Croatia are inclined to postpone payments of utility bills due for electricity, communications, and gas. At the beginning of 2000, around a quarter of the electricity consumed was not paid for, or paid for with a considerable delay. On the other hand, there is no coherent assistance program for the poorest segments of the population that lack the income to pay utility bills. Municipalities run special assistance programs to help the poor with payments of debts to utilities, but multiple criteria are used in different parts of the country with no attempt to unify the approaches and develop a consistent policy.

The activities in the Project related to social exclusion and indebtedness of the population are linked with:

- preparation of an analysis on local and international positive experiences, particularly on the prevention of over-indebtedness;



- proposal of simple, user-friendly and understandable guidelines about how to manage personal finances and avoid over-indebtedness, and
- organization of various workshops, round tables, and seminars on household indebtedness, as well as counseling services on financial planning and financial management.

As a means of improvement and palliation of over-indebtedness, *the Guide for the Reduction and Advice for Mitigating and Prevention of Indebtedness* has been compiled (also available in the Croatian language under the title *Vodič i savjeti za ublažavanje i sprječavanje prezaduženosti*), which is accessible on the following web pages: [www.socijalna-ukljucenost.net](http://www.socijalna-ukljucenost.net) and [www.ijf.hr](http://www.ijf.hr).

### ***Adjustment of the Demand and Supply within the Social Welfare System through Social Planning on the Lower Level of Government***

Currently, there is a prevailing concern that the social care services in Croatia are not necessarily targeted at those who are most in need. The reasons for this situation are manifold. The current data collection system and organization are largely concerned with the measurement and orientation to outputs e.g. how many of the various types of cash and/or in kind benefits have been provided, how many counseling sessions have been delivered, how many people have been in residence at the various residential institutions on the 31<sup>st</sup> of December each year, etc. Also, it is currently difficult to obtain reliable information on the level of utilization of existing social care services. The only readily available figures, providing an indication of the level of social care activity carried out by social welfare centers, for example, are the number of decisions on referrals to other types of service provision, such

as admission to a residential institution and the number of counseling sessions provided. It is not possible to determine which groups of service users are the main users of counseling services in social welfare, what proportion of the service-users make more than one contact, and how many follow-up contacts are made by service users, e.g. what is the range and what is the average over a year's period of time. Data on the utilization of information and counseling services managed by other providers is similarly lacking. The NGO sector in social welfare and social security is currently underdeveloped in terms of the number and quality of NGOs in the sector. Finally, the experience of involving service users in the planning cycle is currently limited.

In order to plan effectively, it is essential to have a clear picture of the current resource base and a forecast for the likely increase/reduction in spending at the local, county, and national level. To achieve this, the budgets for social care services and cash/material benefits need to be disaggregated at the local, county, and national levels. Only then will it be possible to identify allocations and trends for social care service expenditures and to plan in accordance with the available financial resources. There is currently no incentive for the service providers of central government funded social care services to manage their financial resources and seek cost effectiveness and savings. Under the current system, any savings made during the financial year may result in a reduction of the allocation for the following year. There is no scope to reinvest any cost savings based on higher efficiency in improvements to the service. Indeed, there is a perverse incentive to spend each year's allocated budget up to the upper limit.

On the other hand, there is a solid body of social care expertise within the Centers for Social Welfare and the residential institutions. There is a well developed awareness of the

need for reform and a high degree of consensus about the direction. Efforts have been made to diversify service provision to include day care services, home care and independent living in apartments. The residential care ethos respects the dignity of the service users and emphasizes the creation of a warm and welcoming environment that values the individual.

Through social planning it is possible to arrive at a better identification of local needs, to secure the involvement of both beneficiaries and local communities, and to develop new services that are adjusted to actual needs. As far as service delivery is concerned, social planning development is an opportunity to increase the quality, efficiency, diversity, and inclusiveness of these services. There are risks however, that red tape and bureaucratization, together with increases in the number of service users, will further separate social care staff from direct work. A partnership with other agencies and stakeholders is a chance to improve the quality and range of services.

With respect to social exclusion, social planning, and the adjustment of demand and supply of social services, the Project proposes the following activities:

- County Mapping – the aim of the county mapping exercise is to identify the range of services available, the current statutory/ NGO/ private sector mix, and the geographical spread and capacity (i.e. places/ units of service available);
- Get Insight into Profile and Characteristics of Current Service Users – Data on current service users will be analyzed to develop an overview of who is using what type of social care services, the main needs/outlined problems, the range of services they use, and how long they remain in contact;
- Financing of Service Provision – The aim of the financial analysis is to identify (i) the total resource base for social care services

at the county level; (ii) sources and flows of funds (central, county, local, donor, private sector, individual payments, etc.); (iii) the unit costs of various types of service provision; and (iv) current allocation patterns. This information will assist in making decisions about the need to reallocate funds in line with the priorities identified in the planning process;

- Audit of Quality of Practice – In order to identify and agree the County priorities for improvements to social care services it will be necessary to undertake an initial evaluation of the current quality of practice. In the absence of agreed national standards against which the quality of provision can be assessed, the development of an organizational audit tool is proposed as an interim measure. Ideally, the audit tool should be developed by a partnership of service providers and service users, but since the experience of developing indicators and of facilitating service user involvement is limited, initial development of the audit tool will be undertaken in two stages.

Service providers will participate in various workshops to develop the organizational audit tool. Service users will contribute to the audit and inform the further development of indicators, against which the quality of practice should be assessed. In subsequent planning rounds, the information from the organizational audit should be reviewed by service providers and service users together to identify where improvements can be made to the process. The audit will be conducted through a peer review mechanism, whereby staff will use the agreed framework to audit each others' services. Ideally, audit teams should include staff from both statutory and NGO sector services. The piloting of a peer review conducted by service users in the residential sector will also be encouraged.

An important task in this improvement

will be the elaboration of a *Social Care Services Planning Handbook*. Its aim will be to support the development of social care service plans on the local level in the Republic of Croatia. It will also provide guidance on what has proved to be our major challenge – getting the necessary information. The handbook will be designed to help local stakeholders to address the following questions:

- What are the social care needs in our area?
- What is currently provided to meet those needs?
- What changes are occurring in the wider environment that may have an impact on social care services delivery?
- Are services provided in line with the best practices to an agreed quality standard?
- Do the services provided achieve good outcomes for service users?
- Are the services provided good value for money?
- Where are the main gaps?
- What could be done differently to achieve better outcomes for service users?

Finally, well-developed plans increase the chances that the day-to-day activities of the organization will lead to desired results. Planning helps the members of an organization focus on the right priorities, and it improves the process of people working together as they pursue these priorities. Planning alone does not produce results; however, it is a means, not an end in itself. The plans have to be implemented to produce results.

With respect to all activities mentioned in the five subcomponents there is a need for increasing the awareness of the general public about the problem of social exclusion, available in the Croatian language as *Vodič za socijalnu uključenost* on the following web pages: [www.socijalna-ukljucenost.net](http://www.socijalna-ukljucenost.net) and [www.ijf.hr](http://www.ijf.hr).

## Conclusion

As every other country, Croatia has to find and develop such constitutional and legal arrangements for reducing social exclusion that suit best its own historical, social, cultural and economic situation, conditions and possibilities. The government could provide a stabile legal framework, social infrastructure, and – with the co-operation of its citizens – establish the rule of law. Otherwise, the socially excluded people will suffer most from the lack of clear laws and the unwillingness of society to respect these laws. In order to make the laws work, political will and leadership commitment is vital. Just as important is the empowerment of citizens and their full participation in the political process. All partners hope to significantly improve the social picture of Croatia, hoping that their efforts will achieve the expected results.

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## Poverty and Social Exclusion in Serbia

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### Summary

The transition process in Serbia and the structural changes in its economy have been followed by increasingly visible social problems and massive poverty of the population. Unfavorable trends on the labor market, decrease in the number of the employed and the high unemployment rate have resulted in a drop of the living standard of the so-called “losers from the country’s process of transition”. Based on the predominant neo-liberal opinions and assumptions, the social reforms implemented in the previous decade have led to radical changes in the social protection system and a decrease in the number of beneficiaries from all state programs aimed at helping and supporting the poor. According to the results of the Living Standard Measurement Survey held in 2002 and 2007, the poverty rate has been almost halved, but the poverty profile remains almost the same. In the structure of the poor, people over 65, children below 18, the unemployed, and people with low educational achievement have a prevailing share. The creation of a social inclusion policy is in direct connection with the process of accession to the European Union and the efforts to coordinate the national and Laeken indicators. The paper deals with the causes and extent of poverty in Serbia in the period after the „democratic changes“ of 2000, having in mind both the political, economic and social indicators, and the actors of change.

The analysis of the effects brought about by the social and economic reforms has been carried out with a view to arriving at a critical review of the radical approach to changes, which caused a further drop of the

living standard of the population. The results of the research made thus far confirm the starting hypotheses and make it possible to gain an insight into the actual situation in the social sphere, as far as social inclusion is concerned. A special focus has been laid to the analysis of the current effects of the global economic crisis and its consequences for the further reform of the social assistance system. In particular, the paper analyzes the measures proposed for the pension system reform agreed with the IMF with a view to consolidating the government budget and reducing public expenditures.

*Key words:* poverty, social inclusion, transition, social reforms, Laeken indicators, the global financial crisis, pension reforms.

### Background and a Brief Analytical Outline

In the previous two decades, the process of transition and changes in Serbia was followed by an increasingly visible social differentiation of the population. Structural changes in the economy have been directed toward the privatization of state-owned companies and market liberalization, resulting in destruction of giant industrial complexes, massive layoffs and unemployment. The deteriorating living standard and increase in the number of the so-called “losers from the country’s process of transition” have resulted in the impoverishment of a significant proportion of the population who proved incapable of satisfying their basic needs in the situation of unfavorable economic trends. Research has shown that the elderly and children, women, young people without jobs, refugees and internally displaced persons, as well as some ethnic groups (such as the Roma population) are especially exposed to the risk of poverty and social exclusion.

The state scheme of assisting and supporting the poor in Serbia can no longer provide them with the basic level of security; it can cover neither the basic risks, nor ensure adequate financial means to this end. The reform of the “generous socialist welfare state” by measures promoting an “active social policy” can be described in terms of modifying the role of the government and strengthening the individual responsibilities. In the situation of unfavorable economic trends and problems with employment, it means that previously established rights have been waived and the problems cannot be adequately solved. Having embraced the neo-liberal concept of reforms and given the negligible role of trade unions and civil society, the government had to outline a strategic framework of actions, which encompasses all the social partners and aims at introducing changes in the country’s social sphere.

The process of Serbia’s future accession to the European Union has brought into focus the discussions about the conditions, which have to be fulfilled in the area of social policy, i.e. the issue of social inclusion. First steps have been made regarding the elaboration of instruments for measuring poverty risk, in compliance with the Laeken indicators and national specificities. It is only the beginning of all the activities, which the country has to accomplish in the European year (2010) of fighting poverty and social exclusion and which should contribute to the provision of a minimal level of security for the groups and individuals at risk. The elaboration of an adequate social inclusion policy is a challenge for scientists and experts, state bodies and institutions, unions and employers, NGOs and other actors in the state alike. We hope that the solutions to be adopted will be based on the European values and democratic principles.

### ***Political Framework and Actors of Changes***

The process of post-socialistic transition in Serbia has taken place in several phases. The first period (the so-called „blocked transformation”) is typical for the last decade of the past century, while the events after 2000 (or the so-called „de-blocked transformation”) are being regarded as the true beginning of transition. The decade after the “democratic changes” (i.e. the period between 2000 and 2010) has been characterized by a short period of optimism based on rashly given promises about quick recovery and the certainty of Serbia’s European perspective. The conflicts and disintegration of the democratic coalition (DOS), and the frequent elections and changes of governments, however, slowed down the transition process and resulted in the delay of accomplishing the reform objectives. The whole process of changes has been accompanied by the unsolved status of Kosovo and Metohija and the pressure of the international community to extradite those accused of perpetrating war crimes. The formation of “unprincipled coalitions” based on party and personal interests can be connected with the inability of the government to solve the problems stemming from corruption and crime.

The first wave of political and economic changes in Serbia took place during the crisis on the territory of ex-Yugoslavia, which resulted in the disintegration of the country and the establishment of independent countries (ex-Republics). The war, the sanctions imposed on the country (UN 1992), and the economic crisis produced the drop in the GDP, the unprecedented inflation (in 1993), the reduction of salaries (to DM 5 – 10 per month), the rise of unemployment, poverty, and finally brought about the economic collapse. In January 1994, the problem of hyperinflation was solved, a slight increase in

industrial output was reported, but the situation did not significantly change even after the elimination of the so-called exterior wall of sanctions. NATO's bombing of Serbia, the destruction of industrial, infrastructural and civil facilities, the high number of victims, and the military defeat accelerated the process of political changes.

The new „democratic Government“ (2000) prepared a package of reform proposals, the goal of which was to „create a real market economy“ and a „strong social policy“ in order to help out the „losers from the transition process“ to endure the difficulties caused by the restructuring of the economy and to provide them with a minimum of living standard. The shaping of these reforms was led by ideas and strategic aims defined by the Ministry of Labor and Social Policy, but the liberally oriented Ministry of Finance had the final say on them. With time, the strong reformative enthusiasm lost its intensity and „transition fatigue“ began to emerge when it came to solving the difficult issues and problems brought on by the negative effects of reforms. A change of attitudes and roles took place in the period of

frequent elections, new governments, weak trade unions, and quite anonymous Ministers of Labor and Social Policy.

The period after the “democratic changes” of 2000 has been characterized by reforms directed towards the formation of a macro-economic base for a sustainable and stable economic development. By 2008, dynamic economic growth and price and exchange rate stability were achieved, along with the constant growth of foreign exchange reserves. In the situation of liberalization of domestic and international trade, the state-owned companies and the banking system were privatized, and many changes were introduced to the tax system and the public finance sector. In the mid-2008, a deceleration of economic growth was reported, but the real effects of the global crisis came to be seen in 2009, despite the forecasts that Serbia and other countries of the Western Balkans could avoid the most serious impact of the crisis. The latest forecasts and official projections have pointed to positive developments during 2010 and some modest economic growth.

#### Basic indicators of economic trends (growth rates, in %)

	2001	2002	2003	2004	2005	2006	2007	2008	2001/08
<b>GDP, actual growth</b>	5,6	3,9	2,4	8,3	5,6	5,2	6,9	5,4	5,4
<b>Number of employed</b>	0,2	-1,7	-1,2	0,5	0,9	-2,1	-1,1	-0,1	-0,6
<b>Net salaries</b>	16,5	29,9	13,6	10,1	6,4	11,4	19,5	3,9	13,7
<b>Labor productivity</b>	5,2	0,54	3,7	7,8	4,7	7,5	8,1	5,6	6,0

Source: RZR, 2009: 17.

The nature of social problems and the severity of the situation of the majority of the Serbian population influenced the character and aims of social reforms in the period of transition and changes. In the first months of

2000, the most urgent problems were solved (electric power and food supply, regular payments of pensions, salaries and social support benefits), with the direct assistance of the international financial institutions and vari-

ous donors. Parallel to that, a new policy in the field of social assistance was formulated. It was coordinated by the Ministry of Social Affairs and assisted by international financial institutions such as the World Bank and the IMF, as well as by the governments of donor countries. Economic recovery and positive economic trends had a favorable impact on the living standard increase, primarily due to the dynamic growth of salaries and pensions. However, net average salaries as a whole have been significantly lower compared to other European countries and countries in the neighboring regions.

The social security and health insurance system (*including old-age, unemployment, and disability social security contribution schemes, and health insurance contribution schemes*) was reformed with a view to removing the observed systemic shortages and creating the basis for the construction of a financially sustainable system. The process of radical changes based on neo-liberal principles and the World Bank's concept started in 2001 with the pension reforms. Later on, the social assistance and children's protection systems were also reformed, which aggravated the situation of their beneficiaries. The radical reform endeavors also required solving the problems of financial sustainability and competitiveness of the social protection system, as well as the creation of conditions for overcoming the crisis in the process of enforcing the guaranteed rights. The decade of reforms and challenges posed by the crisis also required to consider the adequacy of the implemented concept and to eliminate the problems stemming thereof.

The absence of political consensus inside the country enabled the international financial institutions to impose their strong influence, while the orientation towards joining the EU was often used as an excuse for concealing problems, which were caused by the Gov-

ernment's wrong decisions. The most influential international actors in the social policy reforms in Serbia, much like the situation in the majority of other countries in transition, were the two leading international financial institutions – the World Bank and the IMF. The European Union (with the Delegation of the European Commission and the European Agency for Reconstruction) was dealing with the social policy problems to a much smaller extent. The UNDP saw its place mainly in the field of assisting to build the local capacities for social development, while the ILO acted in its traditional fields, including labor standards, labor legislation, social dialogue and tri-partite negotiations, as well as pensions. Finally, there was a significant number of bi-lateral development agencies, such as the USAID, DfID and others, among the actors influencing the elaboration of Serbia's social policy.

### ***The Extent and Characteristics of Poverty***

Studies of poverty in Serbia indicate the reduction of poverty risk over the last decade. According to the Living Standard Measurement Survey (LSMS) data<sup>32</sup>, the number of people living in poverty between 2002 and 2007 was halved, which means that one of the goals of the Poverty Reduction Strategy Paper of 2003 has been accomplished. In 2002, 14% of population, or one million people, were poor and five years later (2007), 6.6% or 490 000 people only lived in poverty. The positive changes are interpreted as a result of economic growth, the increase of incomes and pensions, and of social transfers and remittances.

<sup>32</sup> In LSMS from 2002, the poverty line was calculated to stand at 4 489 dinars, and in 2007 it was set at 8 883 dinars, whereby the methodology was slightly modified. If we use the same modified method to the 2002 LSMS, the poverty line would be 5 234 dinars.

**Poverty in Serbia (%)**

	2002	2007
<b>Percentage of people living in poverty, total</b>	14,0	6,6
<b>Percentage of children living in poverty age 0-5</b>	12,5	8,7
<b>Percentage of children living in poverty age 6-14</b>	14,3	9,5
<b>Percentage of the elderly living in poverty age 65+</b>	19,9	9,6

Source: *The Living Standard Measurement Survey (LSMS), 2002 and 2007.*

Poverty is still mainly a rural phenomenon and it is characterized by great regional disparities. The poverty index in 2007 ranged from approximately 3% in the urban areas of Belgrade up to the 18.7% in the rural areas of South Eastern Serbia. Poverty mostly strikes jobless households (19.7%), with the poverty rate decreasing with the higher level of education, without a notable difference between genders. „Children and the elderly tended to face a higher risk of poverty than the rest of the population. The higher risk of poverty is still among the elderly (65+) and their status compared to the average of the population remained almost the same. Even though in 2007 the percentage of the elderly that lived in poverty was significantly lower compared to 2002 (9.6% in comparison with 19.9%), the risk of poverty is around 40% which is much higher than among the rest of the population. In 2007, the elderly represented 17.4% of the population and 25.3% of all people living in poverty” (LSMS, 2008: 21).

Huge *regional differences* in economic development and the living standard are a significant factor of poverty in certain areas. The transition deepened the differences between urban and rural areas, which resulted in an increase of the poverty rates in the areas, in which the previously state-owned companies and large-size industrial complexes collapsed and suffered from unsuccessful privatization and restructuring. At times, apart from the underdeveloped part of South Serbia, the east, central and some parts of western Serbia became regions with low economic efficiency. Consequences of these economic disparities are visible through the different poverty rates, since poverty is directly related to the degree of economic development. The results about the regional differences in 2007 were quite disturbing, as the poverty index was 3% in the urban area of Belgrade and 18.7% in the rural parts of South Eastern Serbia (LSMS, 2007).

**Poverty indicators by labor market status (% , 2007)**

	Poverty rate	Distribution of the poor	Distribution of overall population
<b>Active</b>	5,6	51,6	60,5
<b>Employed</b>	4,7	39,9	56,6
<b>Unemployed</b>	19,7	11,7	3,9
<b>Inactive</b>	8,1	48,4	39,5
<b>Total</b>	6,6	100,0	100,0

Source: *Krstic (2008) based on LSMS of 2002 and 2007.*

*The labor market status* is also an important indicator of poverty. The great majority of poor people live in households with an unemployed breadwinner (19.7%). At the same time, in 2007 (LSMS) households where adults worked were less likely to be at risk of poverty. Poor people mostly live in households with an inactive member (12.2%) and without employed members (11.1%). An in-depth analysis shows the full scope of the problem and reveals that the majority of household at risk of poverty are those with working adults (81.4%). The higher level of *education* decreases the risk of poverty and according to the Living Standard Measurement Survey of 2007 there were no poor people among those with a higher level of education. People with disabilities are at greater risk of poverty. In 2007, 8.13% of the disabled individuals lived in poverty, and 68.5% of them were older than 60 years of age.

The real picture of poverty in Serbia becomes a little bit different, if we take into consideration the status and living condition of the vulnerable groups, especially refugees, internally displaced people, and the *Roma population*. Poverty among the Roma is extremely high and in 2007 almost half of the population (49.2%) was living in poverty. "Among the households living in poverty, there is an extremely high percentage of those, which consist of a single individual, older than 65 years of age, and the same refers to the Roma people (43%) and the refugees and internally displaced per-

sons (50%)... If we look at the poverty rate according to the age structure of the Roma people, the elderly and children (younger than 16) are at a greater risk of poverty than the rest of the Roma population: 68% of the elderly and 63% of children in comparison with the 11% and 16% poverty rate of the same age structure within the indigenous population. Among the refugees and the internally displaced persons, children and young people are at greater risk of poverty, especially those aged 16 to 24 (45%) and younger than 16 (41%)" (UNDP, 2006: 6).

### ***Social Welfare and Social Inclusion***

Social welfare in Serbia is organized according to traditions, social attitudes, economic possibilities, and the decisions of major public institutions. The institutional grounds for social assistance consist of social and child welfare systems, and since the 1990s the role of the local community and the civil sector has become more significant. Within the social and child welfare system in Serbia there is a great number of programs targeting the people who live in poverty and face social exclusion, especially: large families, single parent families, children without parents, war veterans, civil victims of wars, children and the elderly. Unfortunately, even though there is a great number of social programs, the current social safety net is inefficient in securing the adequate level of social protection for those in need.



**Households receiving social assistance (in %, 2002, 2007)**

Kind of program	2002	2007
<b>Number of households receiving social welfare support and assistance</b>	2 435	738
<b>Benefits for external care and assistance</b>	1,7	3,1
<b>Protection of veterans and disabled from the war</b>	0,2	0,4
<b>Protection of civil victims of war</b>	0,0	0,1
<b>Material provision for families (MOP)</b>	1,1	1,4
<b>Humanitarian aid</b>	3,4	0,2
<b>One-off municipality welfare support</b>	0,5	0,1
<b>Children's allowance</b>	10,1	8,2
<b>Parental (maternity) allowance</b>	0,4	0,6
<b>Alimentation</b>	0,6	0,6

Source: LSMS, 2007.

The basic programs of cash transfers are meant for family material provision (MOP), children allowances, and benefits for external care and assistance. The material provision for families is a means tested and state funded cash benefit, which is redistributed by the municipal centers for social work. The MOP amount is defined as the difference between the specific household income and the official poverty line. Within the social welfare system, benefits for external care and assistance, provided by a caregiver, are designed for the recipients of MOP who fulfill the requirements provided by the laws. Children allowances have an important place among the other social programs, because of the large number of their recipients and the resources spent on this item.

State financed programs for the poor are quite modest and do not provide assistance and support for all the people experiencing social need. The legal requirements for the enforcement of the right to material provision for families and the actual financial limitations of social welfare budgets are the main determining factors for the selection of beneficiaries, also taking into account their socio-economic status, the number of individuals, and the structure of families. It is thus that the

actual amount of the monetary benefit is finally arrived at. The entitlement requirements for acquiring the right to social welfare support are very unfavorable. This led to the fact that in 2007 only 50 000 households were granted the right to family material provision. The official poverty line is lower than the absolute poverty line used in the Living Standard Survey and that is the reason why the amount of social benefits is insufficient to cover basic needs. Social welfare reduces the risk of poverty but does not guarantee an adequate level of material security in the group of old age beneficiaries.

Of late, poverty has been analyzed within the context of social exclusion or social inclusion in society at large. The introduction of these new notions is strongly linked to the development of social policy and the better coordination between the different social policy models in the EU. For Serbia, it is extremely important that the countries undergoing the process of EU accession, should be obliged to develop their own Joint Inclusion Memorandum (JIM), which consists of the description of poverty in every single country and the measures recommended for its reduction. The countries in the region (Croatia, Bosnia and Herzegovina

and Macedonia) are making final preparations for creating their respective JIMs and are publishing their reports on poverty and social exclusion. The significant part of this research is dedicated to the analysis of the shortcomings

in the implementation of the Laeken indicators because of the absence of compliance of the available statistical data. At the same time, every country is trying to develop priorities defined in accordance with its specific level of

### Laeken indicators in 2007

	Serbia	EU-27
<b>Financial poverty</b>		
a) At risk of poverty rate	9 238 RSD	-
b) Poverty risk rate after social transfers	22,4%	16%
c) Inequality in the distribution of incomes, quintile relation	6,4%	4,8%
g) Gini coefficient	30,0%	30%
<b>Employment</b>		
a) Long-term unemployment rate	14,7%	3,0%
b) Ratio of long-term unemployment	81,3%	42,7%
c) Very long unemployment rate	11,8%	2,1%
d) Activity rate	51,0%	70,9%
e) Employment rate	51,5%	66,0%
f) Structure of employment according to the professional status		
- <i>employed</i>	73,1%	84,0%
- <i>self-employed</i>	20,1%	14,4%
- <i>contributing family members</i>	6,8%	1,6%
f) Participation of the employed for less than 15 hours per week	1,2%	-
g) Participation of the informally employed in the total unemployment rate	35,0%	-
h) Structure of the unemployed in different sectors		
- <i>industry (with construction industry)</i>	29,4%	27,9%
- <i>agriculture</i>	20,8%	5,1%
- <i>services</i>	49,7%	67%
i) Unemployment rate	18,1%	7,2%
<b>Health</b>		
a) Life expectancy at birth	73,8 years	77,7 years
b) Self defined health-status in relation with the level of income	2,6 times	2,4 times
c) People with chronic diseases without a handicap	16,0%	-
d) Mortality rate of infants	7,1%	4,6%
e) Mortality rate of children below 5	8,7%	-
f) Immunization coverage	98,2%	-
<b>Education</b>		
a) Coverage with preschool program of children up to 6 years old	39,0%	-
c) Coverage with elementary education of children 7-14 years old	98,4%	-
d) Rate of elementary school education drop-outs	0,4%	-
e) Coverage with secondary education of children 15-18 years old	78,0%	-
f) Rate of secondary school education drop-outs	2,3%	-

economic, social and demographic development.

Source: UNDP, 2009: 71.

The wide scope of different issues related to the social exclusion phenomenon is subject of numerous documents (the Poverty Reduction Strategy Paper, the Millennium Development Goals, the Employment Strategy, the Strategy for Sustainable Development, etc) as well as research papers on the social inclusion of vulnerable groups (the poor, refugees, internally displaced people, Roma people). The results of this research effort demonstrate both the causes and the scope of poverty among the population in Serbia. The main problem, though, is related to the implementation of the methodology of measuring social inclusion, because it is neither exhaustive, nor universal. It contains limitations in the coverage of basic indicators, apart from the fact that certain fields are covered by already existing surveys and databases.

The preliminary list of social inclusion indicators in Serbia was prepared at the beginning of 2009 and these indicators will be used for the reports on this subject in the future. The main objective is to create a common ground for the development of policies for reducing social exclusion. The measurement of social inclusion will be conducted according to the primary Laeken indicators, which in the meantime have been supplemented with two national-specific dimensions: social participation and response to basic human needs. "The measurement of social inclusion, when it comes to responding to basic human needs, should provide an insight into the basic living conditions. The basic living conditions such as housing conditions, food, and clothing, are closely related to financial indicators but cannot be brought down to them alone. The measurement of social participation should provide information on the obstacles preventing the socially excluded people from an active inclusion in society, from full accesses to the various social services, as well as from participation in the political and cultural life

of society" (Monitoring of social inclusion in Serbia, 2009: 16).

In the conclusion of the report on the monitoring of the social inclusion indicators in Serbia, it is stressed that for most out of the 21 indicators, results can be found in the regular, official surveys, but they are incompatible with the European surveys. Some limitations of the recommended list can be found in the difficulties to follow such a long list of indicators, as well as the very organization of the surveys, the requirement for reporting on an annual basis, and the limited technical possibilities. On the other hand, there are some advantages as well, which are, according to some experts, related to the well developed system of social protection and working with different vulnerable groups, cooperation between public and private institutions, and the positive experience from the implementation of the Poverty Reduction Strategy Paper. "The revised indicators of the Poverty Reduction Strategy Paper contain a great number of relevant measures for the monitoring of social inclusion in Serbia. If possible, the list should be supplemented with some output indicators, which are desegregated according to age and gender in order to better understand the changes in the status of the deprived groups and the at-risk population, including Roma people, internally displaced people and refugees, the elderly, the disabled and the long-term unemployed. For all categories mentioned above, data by gender should be provided as well" (Kokotovic, 2007: 6).

The systematic monitoring of social inclusion can also be done by using the existing statistical data collected according to the European and international standards. The Living Standard Measurement Survey is extremely important, since it already covers some of the Laeken indicators and the universal national characteristics. Because the issue of social inclusion is closely related to the Serbian acces-

sion to the EU, it is important to remove all the obstacles and resolve all the problems. In that sense, it is recommended to resolve the issues concerning normative shortcomings by providing an organizational structure and activities, which promote the concept and policies of social inclusion.

### ***Reforms in the Current Crisis Situation***

Initial estimates about the impact of the financial crisis on the situation in Serbia range from the optimistic ones<sup>33</sup> to the warnings for the need to prepare adequate state intervention programs. At the end of 2008, the first effects of the crisis came to be seen, while in the first quarter of 2009 what was massively observed was a reduced inflow of foreign capital, drop in the domestic and world demand for Serbian products. At the same time, the privatization of remaining public companies came to a halt, coupled with the termination of concession contracts, more prominent illiquidity of companies, and increased unemployment. Faced with the problems of repaying its debts, the inflation and huge budget deficits, the Government started negotiations with the IMF in March 2009. Based on the agreements reached, a proposal for new measures for overcoming the crisis and covering the budget deficits was made, relying on the decrease in public expenditures on pensions and solving the problem with the excessive number of employees in the state administration. In the meantime, first steps in the direction of reforming the pension system and enacting regulations for laying-off the surplus of employees in the state institutions on both the local and higher levels were made.

"It is widely recognized now that the crisis has not avoided Serbia, and that it poses a seri-

ous threat to the achievements in the spheres of human development, stability and economic progress, accomplished during the current decade. The long-term threat, however, is that the crisis ended, strictly speaking, with a whole cycle of economic growth based on the growth of demand and consumption, which was triggered by significant capital inflows. The exit strategy will not be one of returning to this old model, it will be rather necessary to place the foundations of a new development model, based on greater reliance on the country's own real sources of growth" (Krstic et al., 2010: 6).

The first indications of the crisis in Serbia were seen in the banking sector (with panic-stricken people withdrawing their savings) and the dramatic fall of the national currency exchange rate and subsequent devaluation. The National Bank spent a significant amount of foreign currency reserves in order to stabilize the national currency and decrease the inflation pressure. The crisis resulted in the drop of public revenues and growth of expenditures, especially for social transfers. The first act of the Government, which was supposed to be a response to the economic crisis and its impact on the Serbian economy, was the Framework program adopted at the end of 2008.<sup>34</sup> The measures planned in the area of savings and reduction of public consumption were aimed at the increase of economic competitiveness, along with the stimulation of the "state's social nature". The Plan envisages the protection of the most vulnerable categories of the population and "going through and overcoming the crisis so as to experience it as a modest slowing down rather than a drop of the living standard and return to the years of poverty" (Framework program, 2008: 8).

The world financial crisis turned into a world economic crisis in 2009 and it manifested itself in the form of an "unemployment crisis with

<sup>33</sup> In the middle of 2008, the Minister of the Economy and Regional Development, Mr. Mladjan Dinkic, envisaged accelerated economic growth, more foreign investments, and an increase of the employment rate.

<sup>34</sup> The Economic Crisis and Its Impact on the Serbian Economy, [www.srbija.gov.rs](http://www.srbija.gov.rs)

special consequences in the social sphere". To elaborate specific intervention measures was especially urgent in countries, which have not completed their transition cycles yet. The economic policy intervention package of the Serbian government has been directed toward: 1. *enhancing economic growth* (increase of domestic demand, solvency, improving expertise and investments); 2. *social measures* (support for the most disadvantaged groups of the population, e.g. beneficiaries of social assistance, the unemployed, and people over 65); 3. *the rationalization of government expenditures* on all levels; 4. *infrastructural measures* (investing into European Corridor X, reconstruction of local infrastructure, construction of social housing, modernization of public companies, development of rural infrastructure); 5. *monitoring and adjustment of packages of measures depending on the type of economic problems* (RZR, 2009: 12).

The social effects of the crisis have become especially visible on the labor market. The employment rate has been decreasing, while unemployment has been on the rise. All projections point out that the unfavorable situation on the labor market will remain the same over the coming period of time. According to data from the Labor Force Survey, the number of the employed in Serbia has dropped by almost 160 000 or about 6% of the labor force for only a year (2008–2009). This has affected the drop of the employment rate from 53.5% to 50.8%. In the same period, the number of the unemployed has increased by 30 000,

which has altered the unemployment rate from 14.7% to 16.4%. The negative effects of the labor market crisis in Serbia have become especially pronounced in the category of the "vulnerable groups", such as the refugees and internally displaced people, the disabled, and some ethnic minorities (the Roma population), the young, women, older workers, the rural population. The effects of the crisis can also be seen in the *increased poverty rate* from 7.8% in 2008 to 9.2% in the first half of 2009.

In Serbia, the issue of pension decrease has dominated the discussions on elaborating measures intended to cushion the negative effects of the crisis. An arrangement with the IMF provides for freezing pensions in 2009 and 2010 and reforming the system with a view to attaining its financial sustainability and decreasing its dependency on budgetary funds. In order to realize that objective, the following measures were proposed: further reform of the system, raising the retirement age and equalizing the retirement age for men and women (65 years), as well as changing the indexation formula and eliminating some privileges. The draft new Law is being currently prepared and an intensive discussion with the IMF has been held on the modalities of these reforms, with significant differences in reform approaches. The uncertainty and worries expressed by current and future pensioners refer to the minimal level of pension benefits, having in mind the fact that it is the elderly that are most exposed to poverty, and that the poverty risk increases whenever a crisis strikes.

#### Share of the average pension in an average net salary in Serbia (received by the employed population)

Year	Net salary		Average pension		Share in salary
	In RSD	In EUR	In RSD	In EUR	
2001	5 381	90	4 865	82	90%
2003	11 500	177	8 109	123	70%
2005	17 443	210	11 650	141	67%
2006	21 707	258	13 406	159	62%
2007	27 759	347	14 996	187	54%
2008	32 746	401	19 386	238	59%

Source: RFPIO, 2009

The global economic crisis accelerated the process of pension reforms and brought to the fore the problems of providing social security in new conditions. Providing minimal income to old age people, the investment risks and the loss of private pensions value have all become especially important issues. On the global level, the crisis consolidated the opinion about the importance of public systems, which are both resistant to economic shocks and have built-in redistribution mechanisms. Saving money on a private account is exposed to higher risks, due to very nature of investments and the potential possibility for making wrong choices. The changes in pension policies have been directed toward reducing the negative effects of the crisis and increasing the commitment of the state. Except for some radical cases<sup>35</sup>, the majority of countries opted for measures such as adapting to changing conditions, stimulating longer employment, a further increase of the retirement age, and limiting the possibilities for early retirement.

Measures such as securing financial stability and providing adequate pensions are directed towards reducing the poverty risk and enhancing the social inclusion of elderly.

Not all countries and individuals are affected by the crisis to an equal extent. The stronger economies are more resistant to fluctuations on the financial markets and have better possibilities for intervention with a view to reviving the economy. The governments of the economically developed countries have taken measures in the form of direct or indirect support to the poor elderly people in their respective countries. In a situation of monetary instability and aggravated conditions on the labor market, developing countries have limited possibilities for interventions in the area of providing a minimum of security for their old age population. The actual discussions about the pension reforms refer to the introduction of non-contributory “social pensions” in order to guarantee a minimum level of protection to disadvantaged people in their old age.

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<sup>35</sup> In November 2008, Argentina nationalized its private pension funds, which had lost almost a half of their value, with the official justification that this was necessary “in order to protect the savings of pensioners and employees”.



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## Social Inclusion and the Promotion of a Social Europe: Concepts and Frameworks at the EU Level – Selected Data and Challenges across Europe

Mathias Maucher

### Introduction – Structure of Contribution

The following article focuses on selected issues of a presentation entitled “Social Policy Options for the European Union”, which was delivered during the session on “Social Inclusion and the Promotion of a Social Europe” at the Regional Seminar on the topic of “Social Inclusion: National and Regional Policy Priorities for a Social Europe”, organized by the Friedrich-Ebert-Foundation and held on October 19<sup>th</sup> 2009 in Sofia.

To start with, the article elaborates on the *main concepts used in relation to social inclusion* in its section 2. In section 3, the article deals with the *policy instruments in the field of social inclusion as conceptualized and implemented at the EU-level*. Section 4 contains additional references to selected issues around the EU social inclusion strategy in the countries in South Eastern Europe. In the fifth section it presents selected *data* to illustrate different facets of poverty and social exclusion across Europe, in particular on the background of the *current crisis*. Particular attention is devoted to EU-level strategies meant to face the economic and social challenges of the crisis. In its sixth section, the article introduces the concept of a *European Social Model*, before presenting an *outlook* in section 7, and then goes on to provide links to the *SOLIDAR documents and projects* related to “social inclusion” and/or South Eastern Europe under section 8.

*The included data and information basically refer to the situation as of October 2009.* The new developments linked to the financial and economic crises and its backwash effects on European societies could not be taken into account in a systematic manner.

The same holds true with regards to the *policy frameworks* that have evolved in the meantime at the EU-level and are influencing the EU policies designed to combat poverty and social exclusion in the coming years.

- It is in this connection that a particular reference is made here to the “Europe 2020 Strategy” (the agenda for the next decade, which is the follow-up to the expired Lisbon Strategy, launched with an EC Communication in November 2009)<sup>36</sup>, related to the various “flagship-initiatives” including a “European Platform against Poverty” (as announced in a Communication of March 2010)<sup>37</sup>, as well as the Commission proposal of economic and employment guidelines (April 2010)<sup>38</sup> in accordance with the Europe 2020 Strategy;
- A mention is also made of the European Year 2010 for Combating Poverty and Social Inclusion<sup>39</sup> that can be considered a milestone in the EU-level initiatives and activities to address the challenges facing all European societies owing to the higher incidence of poverty and social exclusion in most countries in recent years and additionally fuelled by the current crisis;

<sup>36</sup> For more information see at [http://ec.europa.eu/eu2020/index\\_en.htm](http://ec.europa.eu/eu2020/index_en.htm), the Commission Communication of 03.03.2010, COM(2010)2020 “Europe 2020: A strategy for smart, sustainable and inclusive growth”, as well as: <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%2007%20-%20Europe%202020%20-%20EN%20version.pdf> and read SOLIDAR’s contribution to Europe 2020 consultation launched in November 2009, [http://www.solidar.org/Page\\_Generale.asp?DocID=13958&thebloc=23120](http://www.solidar.org/Page_Generale.asp?DocID=13958&thebloc=23120)

<sup>37</sup> See e.g. [http://www.solidar.org/Page\\_Generale.asp?DocID=13958&thebloc=23933](http://www.solidar.org/Page_Generale.asp?DocID=13958&thebloc=23933)

<sup>38</sup> More info: [http://www.solidar.org/Page\\_Generale.asp?DocID=13958&thebloc=24375](http://www.solidar.org/Page_Generale.asp?DocID=13958&thebloc=24375)

<sup>39</sup> See <http://ec.europa.eu/social/main.jsp?langId=en&catId=637> and <http://www.endpoverty.eu/-HOME-.html>

- We also need to mention the Lisbon Treaty here, ratified in December 2009, as well as the new legal framework of the European legislation drafting and policy making, bringing about important changes and innovations<sup>40</sup>. It includes an extended list of EU objectives in the fields of employment, health and social inclusion, too. The Lisbon Treaty will be instrumental in safeguarding individual and collective rights enshrined in the Charter of Fundamental Rights. It contains horizontal social clauses for the first time ever. The Lisbon Treaty also gives a high profile to the role of services of general interest (SGI), amongst them social services, and calls upon Member States and the EU to set up financial, economic and political conditions for their effective functioning;
- As to governance, the scope for legal and non-legal initiatives coming under the co-decision rule has been extended. The Open Method of Coordination (OMC) – for more info see the section *Main Components of Social Inclusion Policies at EU Level and Their Key Features* – has been finally codified in a Treaty text. And last but not least, institutionalized civil dialogue, including the right to petition as a citizens' initiative, has become an important feature and major tool of participatory democracy.
- Finally, a more indirect, albeit rather decisive impact on the role and design of social inclusion policies stems from an intensified European integration by implementing the fundamental freedoms of the internal market, alongside the application of community competition (including state aid) and economic law (including public procurement and the internal market). This can be particularly beneficial for employment, health and personal social services.

<sup>40</sup> Further reading: The Reform Treaty – a first look at its social and citizenship dimension by SOLIDAR (12/ 2008), [http://cms.horus.be/files/99931/MediaArchive/social\\_policy/contribution-Reform-Treaty-tiempo-de-paz-E.pdf](http://cms.horus.be/files/99931/MediaArchive/social_policy/contribution-Reform-Treaty-tiempo-de-paz-E.pdf). The English version of the article is published in: Movimiento por la Paz, el Desarme y la Libertad (MPDL) (2009): Revista TIEMPO DE PAZ, N° 87. Madrid

### ***Social Inclusion – European Perspectives and the FES Country Studies***

The highly instructive Bulgarian country report "Social Inclusion – Policy Priorities for Bulgaria" elaborated under the FES Social Inclusion in the Western Balkans Project refers to two *key concepts used by the European institutions* when devising policies and tools to fight poverty and social exclusion, by quoting the 2004 Joint Social Inclusion Report:

- "Social exclusion is a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by virtue of their poverty, or lack of basic competencies and lifelong learning opportunities, or as a result of discrimination. This distances them from job, income and educational opportunities, as well as from social and community networks and activities. They have little access to power and decision-making bodies and thus often feel powerless and unable to take control over the decisions that affect their day to day lives". (Country Report Bulgaria, p. 7)
- "Social inclusion is a process which ensures that those at risk of poverty and social exclusion gain the opportunities and resources necessary to fully participate in the economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society, in which they live. It ensures that they have greater participation in decision making, which affects their lives and access to their fundamental rights" Country Report Bulgaria, p. 7)

The two definitions show that both the exclusion from, as well as the inclusion in, our societies are conceptualized as multi-faceted phenomena and as processes, resulting from various dynamics. They also illustrate a broad understanding of the challenges related to the integration into the labor market and

into society by mentioning the four spheres of economic, social, cultural and political life. The social inclusion concept follows a rights-based approach, linking decent levels of living and working conditions to fundamental rights nobody should be denied access to. It underpins the importance of policies that allow everybody to benefit from equal opportunities, from resources to prevent him/her from social exclusion and from protection against discrimination. In mentioning "a standard of living and well-being that is considered normal in the society" people live in, the social inclusion definition implicitly alludes to the concept of "quality of life" that clearly reaches beyond the ambition of meeting purely basic needs or basic levels of participation. It goes without saying that these terms all are open to interpretation and need to be filled with meaning in space and time. However, they are essential points of reference when designing and implementing strategies and programs at the EU level, even more so now with the ratification of the Lisbon Treaty.

The country studies commissioned by FES elaborate on four pillars, which are essential for the sustainable social inclusion of each and every in a given community: education, health care, employment and social services (comprising social assistance as well). As far as the countries under scrutiny are concerned, insofar they have been applying a slightly *different concept of social inclusion*<sup>41</sup> compared to the EU-level concept sketched out above; and they rightfully do so, because they all an-

alyze the output and outcome, the achievements and shortcomings of schemes and provisions, both of basic or minimum nature and beyond, within the national welfare states, all undergoing at the same time processes of transformation and modernization<sup>42</sup>. They deal with institutional arrangements that basically fall into the exclusive competence of the individual EU Member States. EU policies in the field of fighting poverty and social exclusion, however, focus more on 1) common principles; 2) convergence of policies; 3) exchange of good practice and experience, and 4) the setting up of participatory modes of governance across the EU, leaving the concrete design of schemes and measures to the discretion of governments and public authorities at national, regional and local level.

The Country Report of Romania lists a number of *key challenges for social inclusion* that apply across Europe, although to different degrees in different countries, and also play an important role at the EU-level: 1) Access to education, health care, employment, social services; 2) Barriers to access and/or non-equal opportunities for vulnerable groups or disadvantaged women, men and children; 3) Quality of institutions and services; 4) Urban-rural division; 5) Special needs of and conditions for ethnic minorities, such as the Roma population. These are good examples of other elements highlighted in the Country Studies of Bulgaria, Macedonia, and Romania, which are in line with issues of priority concern at the EU level: 1) access to quality services (requirements: availability, affordability, non-discrimination, technical accessibility, e.g. for persons with disabilities, user involvement; 2) implementation of the principles of equal opportunities and equal treatment, based on the European anti-discrimination legislation; 3) ac-

<sup>41</sup> For instance, the authors of the Country Report of Romania state that for the purpose of their analysis the socially excluded are "those who do not have an income that would buy them and their families a standard of living in line with the national mainstream". Stating their awareness of the fact that there are other, non-material dimensions to social exclusion, they consider as socially included "those who enjoy the essential elements of real income even though they might be poor in terms of comparative real income". And this is done for a good reason, as the authors claim that the political agenda needs to focus on a limited number of issues and "the attempt to tackle all aspects of social exclusion in a comprehensive strategy at once easily diverts energy and resources from achievable priority goals".

<sup>42</sup> And this on the background of widespread resistance against the reassertion of state rights, as mentioned in the Country Report of Romania, the authors of which rightfully conclude that there is a need to re-empower state authorities as agents of public interest.

tive inclusion; 4) early school drop-out; 5) European minimum standards for minimum income schemes (more on this under the section *A role to be Played by Europe to Promote the Values and Principles of the European Social Model and Policies Designed to Implement the Objectives of the Lisbon Treaty*); 6) policies based on fundamental and/ or social rights and stipulation of individual entitlements to benefits.

Interestingly enough, the proposal to define policy priorities and to set targets for measuring progress made as suggested, e.g. in the Country Studies of Bulgaria, Macedonia and Romania, is also fully consistent with the methodological approach of the Open Method of Coordination (OMC) in the field of social protection and social inclusion (the section *Main Components of Social Inclusion Policies at EU Level and Their Key Features*). Under the OMC, what should be defined as well are targets related to the strategies, which set out the instruments and resources to strengthen the political commitment and to increase the pressure on governments and public authorities to deliver and act in an accountable manner. Therefore the national policy makers in South Eastern Europe could compare the policy priorities proposed in the FES country studies with those defined at the EU-level and should see how the current EU strategies and policies could be best used to support and amplify national efforts.

### **Main Components of Social Inclusion Policies at the EU Level and Their Key Features**

It is important to recall that the “current generation” of policies to address poverty and social exclusion at the EU level have been developed since 2001 as a continuation of former European

anti-poverty programs initiated in the 1970ies. The *Community Action Program*, adopted by the EU Parliament and the Council in December 2001<sup>43</sup>, was launched in January 2002 and was implemented for a period of five years. It was meant to support cooperation, which enables the Community and the Member States to enhance the effectiveness and efficiency of policies meant to combat social exclusion by:

- improving the understanding of social exclusion and poverty with the particular help of indicators that allow for making comparisons;
- organizing an exchange of experience with respect to policies, which have been implemented, thus promoting mutual learning in the context of national action plans;
- developing the capacity of actors to address social exclusion and poverty effectively, and to promote innovative approaches. This entailed specific measures to strengthen the participation of the various actors and support for networking at the European level.

The Community Action Program came into the framework of the *Open Method of Coordination (OMC) in the field of social inclusion*<sup>44</sup>. This new instrument is both a framework for EU-level policies and defines an innovative governance mode as well.

- It has been implemented with the 2000–2010 Lisbon Strategy in policy fields where the EU lacks primary competence, such as poverty reduction, youth, migration, education and social protection;
- In 2001, a separate OMC on social inclusion was set up under the social cohesion pillar of the Lisbon Strategy and since then has been further developed and spread to other policy fields;

<sup>43</sup> Decision No 50/2002/EC of December 7<sup>th</sup> 2001 establishing a program of Community action to encourage cooperation between Member States to combat social exclusion, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32002d0050:EN:NOT>

<sup>44</sup> The European Council held in Lisbon in March 2000 agreed on the need to take steps to make a decisive impact on the eradication of poverty by 2010. Member States’ policies for combating social exclusion should be based on an OMC combining common objectives, National Action Plans and a Programme presented by the Commission to encourage co-operation in this field.



- In 2006, as a result of a process of “streamlining” with two other strands, pensions and healthcare/long-term care were merged into a new *OMC on social protection and social inclusion*;
- Since 2001 the Social Protection Committee, bringing together representatives of competent national ministries and officials of DG Employment, Social Affairs and Equal Opportunities (which is the Directorate General that also organizes the SPC secretariat), serves as the body at an operational level to oversee these policies at the EU-level. It functions under a mandate of the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council, reuniting the competent national ministries in the field listed above; all SPC decisions of a political dimension need to be endorsed by the EPSCO Council.
- social cohesion, equality between men and women, and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- effective and mutual interaction between the Lisbon objectives for greater economic growth, more and better jobs, and greater social cohesion, and the EU’s Sustainable Development Strategy;
- good governance, transparency, and the involvement of stakeholders in the design, implementation, and monitoring of policy.

Defining common objectives in terms of social protection and social inclusion implies the definition of *common indicators*<sup>47</sup> to compare the best practices and to measure progress towards these common objectives. These are complemented by country-specific indicators.

The OMC builds on different *instruments*: 1) common objectives; 2) targets and indicators at the EU level (underpinned by secondary and tertiary indicators at the national level); 3) definition of national goals; 4) drafting of National Action Plans (2001–2005: NAPincl) or National Reform Programs (NRP) by national governments to be sent to the European Commission; whereby since 2006 social protection and social inclusion policies have become part of NRP; 5) elaboration of Joint Reports<sup>45</sup> (with recommendations) by the European Commission.

The *overarching objectives*<sup>46</sup> of the OMC on social protection and social inclusion are to promote:

The major *elements* of the Social OMC are: 1) exchange of information, experience and good practice; 2) target-based policy coordination; 3) policy convergence (not harmonization of policies!); and 4) recommendations.

- As to the second feature of the list above, i.e. the target-based policy coordination, it is important to mention that the so-called *thematic focus years* have been organized under the social inclusion strand of the social OMC, entailing a period of targeted analysis, intensified exchange and specific reporting at

<sup>45</sup> Covering all relevant aspects of social inclusion policies, the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council and the Commission jointly adopted the fifth Joint Report on Social Protection and Social Inclusion on 09.03.2009. ([http://ec.europa.eu/employment\\_social/spsi/joint\\_reports\\_en.htm#2009](http://ec.europa.eu/employment_social/spsi/joint_reports_en.htm#2009)). It draws on the renewed National Reports on Strategies for Social Protection and Social Inclusion which the Member States presented in the autumn of 2008, also taking into account the economic crisis which largely developed after the strategies were prepared. The aim is for the key messages emerging from the report to drive policy efforts in the areas of social protection and social inclusion over the next couple of years in the EU-27.

<sup>46</sup> For more detailed information also see: [http://ec.europa.eu/employment\\_social/spsi/common\\_objectives\\_en.htm](http://ec.europa.eu/employment_social/spsi/common_objectives_en.htm)

<sup>47</sup> For further reading: [http://ec.europa.eu/employment\\_social/spsi/common\\_indicators\\_en.htm](http://ec.europa.eu/employment_social/spsi/common_indicators_en.htm). The methodological framework for the Social OMC consists of a list of primary and secondary indicators for an overarching portfolio (with a total of 14 indicators) and the three strands (social inclusion; pensions; health and long-term care). They are based on sound EU harmonized data and fulfill the following requirements: policy responsiveness, clear normative interpretation, and focus on outcomes. The indicators are used for the overall National Reports on Strategies for Social Protection and Social Inclusion (NRS SP SI) – for further details cf.

[http://ec.europa.eu/employment\\_social/spsi/strategy\\_reports\\_en.htm](http://ec.europa.eu/employment_social/spsi/strategy_reports_en.htm) – and the specific National Reports on the three different strands, i.e. social inclusion, pensions and health and long-term care, as well as for the joint report presented by the European Commission and the Council.

both national and EU level. A focus on child poverty was the subject matter at the start in 2007, followed by over-indebtedness/ financial exclusion, which was at the centre of attention in 2008, and homelessness in 2009. It makes sense that no thematic focus year is being organized during 2010 as this year has been declared to be the European Year for Combating Poverty and Social Exclusion<sup>48</sup>, giving the fight against poverty and social inclusion a rather high profile on the policy agenda throughout the whole year – at least at the EU-level, but also in a number of EU Member States. It is an appropriate moment 1) for a general assessment of the achievements, shortcomings and failures of the EU social inclusion policies over the last decade; 2) for highlighting transcending and universal issues and the interrelatedness with the issues of labor market participation and access to services (as it is done in the framework of active inclusion<sup>49</sup> policies), and 3) for developing perspectives, targets, and pathways in the fight against poverty and social exclusion for the next years to come;

- Policy processes under an *OMC* can serve as an instrument to prepare Community legislation as a second step. For instance, this might be the case in view of a Framework Directive on Minimum Income, one of the key requests of the social NGOs<sup>50</sup> and other stakeholders.

Important *additional features of the Social OMC* at the EU level are: 1) a peer review

process; 2) a network of independent national experts<sup>51</sup>; 3) studies; and 4) the financial “PROGRESS”<sup>52</sup> framework.

- Involving experts working at the grass-roots level and focusing on the transferability of functioning institutions, effective programs, and innovative modes of governance, the *peer review* seems to be of particular interest for practitioners and policy makers. The approach is in line with one of the aims of the Social OMC to develop a mutual learning process involving the scrutiny of specific policies, programs, or institutional arrangements presented as good practice in the various National Action Plans on Social Inclusion (in the meantime integrated in the NRP). Peer review seminars, having started as early as 2004, encourage the dissemination of good practices across Member States by assessing the effectiveness of key policies or institutions and make comparisons with the experience of the host country in a particular area, accompanied by the comments and critical analysis of peer countries. The recommendations resulting from such a review are also meant to help governments win support at home in their policy-making. Thus for instance, a country seeking to reduce poverty among children, or street homelessness, or aiming at reducing barriers

<sup>48</sup> See footnote 39.

<sup>49</sup> For more on active inclusion, a concept elaborated in 2007, which has been fine-tuned ever since and in the meantime gained importance for all EU social inclusion strategies and labor market policies, see the end of this section.

<sup>50</sup> See [http://endpoverty.eu/IMG/pdf/4-page\\_doc\\_-\\_shared\\_messages\\_final\\_en.pdf](http://endpoverty.eu/IMG/pdf/4-page_doc_-_shared_messages_final_en.pdf) for the NGO Alliance EY2010 and <http://www.endpoverty.eu/IMG/pdf/solidar-messages.pdf> for SOLIDAR's requests and recommendations.

<sup>51</sup> They assist the European Commission in monitoring and evaluating the implementation of Member States' National Action Plans on Social Inclusion (that with the streamlining of the OMC became part of the National Strategy Reports on Social Protection and Social Inclusion). Each year experts provide two reports on their respective country, one with detailed analyses of the themes that have been singled out as priority issues under the Social Inclusion Strategy, and the other containing regular accounts of recent policy developments and key trends considered relevant for the EU policy coordination process on social inclusion. They also assess the “social inclusion strand” of the National Strategy Report on Social Protection and Social Inclusion. For more information: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts>

<sup>52</sup> See [http://ec.europa.eu/employment\\_social/spsi/transnational\\_exchange\\_en.htm](http://ec.europa.eu/employment_social/spsi/transnational_exchange_en.htm) with respect to the Transnational Exchange Projects and [http://ec.europa.eu/employment\\_social/spsi/programme\\_decisions\\_en.htm](http://ec.europa.eu/employment_social/spsi/programme_decisions_en.htm) concerning PROGRESS.

ers to labor market access for people with disabilities, or willing to improve the quality of long-term care institutions and services can learn valuable lessons from its peers on what has worked and what has not. This can save time, and costly experimenting in the elaboration of effective national policies. Looking into the lists of topics dealt with since 2004, it becomes obvious that the scope of what is understood by “social inclusion” has been widened over time<sup>53</sup>.

The *participation of a broad range of stakeholders, including local authorities, employers, trade unions, and civil society organizations*, is a precondition for the OMC to function in an effective manner.

Since 2007 a new concept emerged at the European scene, namely the concept of *active inclusion*. Initially it started off as the narrower one, compared to the broader and all encompassing concept of “social inclusion”, focusing on people who could be integrated in the labor market. In the meantime, the borderlines have become rather blurred, with “active inclusion” mainly used as a *vehicle to advance at the EU level on policy dossiers linked to minimum income, labor market inclusion, and access to (social) services*.

- In October 2007, the European Commission presented a Communication on active inclusion that built on the three pillars namely: ‘sufficient income support’, ‘inclusive labor markets’, and ‘better access to quality services of general interest’. It focused on strategies and measures meant to mobilize and support people who are capable of working, in order to facilitate their labor market inclusion, while providing a decent living standard to other people who cannot work;
- On October 3<sup>rd</sup> 2008, the European Commission published a *Recommendation on Active Inclusion*<sup>54</sup>, based once again on the three key elements of the active inclusion concept: adequate income support, inclusive labor markets, and access to quality services. For all three strands the Recommendation sets out common principles and guidelines (except for the third pillar “access to services”) that should support Member States when designing or revising policies oriented towards people excluded from the labor market and fighting poverty and societal exclusion. The Commission Recommendation calls for a comprehensive policy design and coordinated policies and asks Member States to ensure the comprehensive participation of all social partners, the NGOs, and the service providers, as well as those affected by poverty and social exclusion, in the development, implementation, and evaluation of existing strategies. The common principles set out by the Commission represent a voluntary framework for Member States to be implemented. They are asked to include relevant information on what and how has been done in their NRP;
- In April 2009, the *European Parliament* adopted a *Report on Active Inclusion*<sup>55</sup>, thereby giving additional political weight to the Commission Recommendation. As early as September 2008, the European Parliament had already voted a *Report on Social Inclusion*<sup>56</sup>.

<sup>53</sup> For more information go to: [http://ec.europa.eu/employment\\_social/spsi/peer\\_review\\_en.htm](http://ec.europa.eu/employment_social/spsi/peer_review_en.htm), with a full list of the peer reviews done since 2004 and planned for 2010: <http://www.peer-review-social-inclusion.eu/peer-reviews#2010>.

<sup>54</sup> Further information: [http://www.solidar.org/Page\\_Generale.asp?DocID=13958&thebloc=19154](http://www.solidar.org/Page_Generale.asp?DocID=13958&thebloc=19154)

<sup>55</sup> Read more at: [http://www.solidar.org/Page\\_Generale.asp?DocID=21208&thebloc=21208](http://www.solidar.org/Page_Generale.asp?DocID=21208&thebloc=21208).

<sup>56</sup> For more detailed information cf. [http://www.solidar.org/Page\\_Generale.asp?DocID=18812&thebloc=17571](http://www.solidar.org/Page_Generale.asp?DocID=18812&thebloc=17571) and [http://www.solidar.org/Page\\_Generale.asp?DocID=18812&thebloc=18812](http://www.solidar.org/Page_Generale.asp?DocID=18812&thebloc=18812)

### ***Some Additional References to Selected Issues around the EU Social Inclusion Strategy in the Countries of South Eastern Europe***

With their accession to the EU in 2007, Bulgaria and Romania were also obliged to set up the Social OMC, which is an inseparable part of the *acquis communautaire*. To prepare the involvement in this governance structure, *Joint Inclusion Memoranda* (JIM) were signed in 2005, as this had earlier been the case with the 10 Members States that had joined the EU in 2004. The JIM identified and outlined the principal challenges faced by both Bulgaria and Romania in tackling poverty and social exclusion, assessed the strengths and weaknesses of existing policies, and identified future challenges and policy priorities. It presented the major policy measures taken in order to translate the EU's common objectives into national policies and listed the central topics for monitoring and further review. The JIM finally summarized how to mainstream poverty and social exclusion related issues across all relevant policy fields.

*Studies have not only been commissioned by the European Commission for the EU27 countries<sup>57</sup>, but also for countries in South Eastern Europe.*

- The aim of a series of studies on social protection and social inclusion<sup>58</sup> presented in early 2009 was to inform the process of the accession perspective of Albania, Bosnia and Herzegovina, Montenegro, and Serbia, as well as Kosovo in these areas. The studies provide an analysis of the social protection systems, the extent and

pattern of poverty and social exclusion, and the plans envisaged for the reform of the pension and healthcare systems of each individual country;

- 2007 saw the publication of the study "Social protection and social inclusion in the former Yugoslav Republic of Macedonia", that should help to inform the forthcoming accession negotiations and contribute to the JIM for Macedonia in particular. Focusing on the problem of social exclusion, the study addressed main institutional and legislative structures of the social protection system, as well as current reforms and challenges. It also covered cross-cutting issues, such as gender, ethnic communities, and vulnerable communities.

The Country Studies produced within the framework of the FES Project substantially expand the pool of knowledge created by the studies commissioned by the European Commission. They add valuable bits and pieces of information and in particular contain recommendations on feasible and effective policy priorities to address key challenges to social inclusion, policies based on fundamental and social rights for all, and measures to promote equal opportunities, non-discrimination, and a fairer distribution of income and wealth.

In addition, *policy coordination in South Eastern Europe* has been promoted and *improved in the fields of social protection and employment*. In the area of employment policy, social issues and social dialogue, reviews of each country's employment policy continued and work was initiated on occupational health and safety, as well as on networking public employment services, under the "Bucharest process". Regional meetings and conferences have been held on employment, social dialogue and social protection issues. In October 2007, common policy priorities were agreed by the Western Balkan ministers for employment, labor and social affairs ("Budva conclusions"). A declaration on social security co-

<sup>57</sup> For a more comprehensive overview: [http://ec.europa.eu/employment\\_social/spsi/studies\\_en.htm](http://ec.europa.eu/employment_social/spsi/studies_en.htm). For the EU27 countries they focus on areas where NSRs have revealed a greater need for European exchange and debate and seek for complementarities with the themes selected under the peer review process in particular.

<sup>58</sup> This study "Social Protection and Social Inclusion in the Western Balkans and others can be accessed at the URL [http://ec.europa.eu/employment\\_social/spsi/studies\\_en.htm#western\\_balkans](http://ec.europa.eu/employment_social/spsi/studies_en.htm#western_balkans).

ordination was also signed by ministers of social affairs ("Tirana Declaration"). Community assistance is being provided to a program on coordination of the social security systems<sup>59</sup>.

As of October 2009, Bulgaria and Romania<sup>60</sup> had not been yet the target countries of a *peer review process*, although national experts had been involved in processes hosted by the other 25 EU Member States. In other words: The potential of this instrument of the EU social inclusion strategies had therefore been still untapped by these two countries and by their government experts, social NGOs, and trade unions in particular.

The *EU-level evaluation system assessing* on a regular basis both the contents of the National Reform Programs (NRP) including the governance processes in defining, implementing and monitoring the NPR and the National Reform Strategies on Social Protection and Social Inclusion (NRS SPSI) contains a number of ambiguities and deficits with regard to many EU Member States.

- National stakeholders and advocacy groups insofar could make use of specific elements from the "toolbox" provided for by the European institutions, in order 1) to get (more comprehensively) involved in the policy decision making processes, policy implementation, policy monitoring, and policy evaluation, not least in the field of social inclusion, and 2) to more effectively target their own advocacy work and lobbying activities.
- These evaluation and reporting systems could also be seen as important steps to

increase the political commitment and accountability of national governments and strengthen the involvement of national stakeholders, not least the National Parliaments, to overcome the rather bureaucratic processes of reporting in a mostly bilateral relationship between the Member States and the European Commission.

To illustrate the potential use and usefulness of these reporting exercises, the following paragraph highlights selected issues as identified in the assessment of documents provided by the Bulgarian authorities. A report prepared under the peer review program (the section *Main Components of Social Inclusion Policies at EU Level and Their Key Features*) in 2008 analyzed the NRP section of Bulgaria dealing with social inclusion<sup>61</sup>.

- It concludes that "there is little evidence that there has been any coordination between the updated NRP and the NRS SPSI, which appeared recently. This may be due to the financial and economic crisis, which creates anxiety in the government and shifts the place of social inclusion policy even lower than it was before on the priority list of the country. ... The assessment of progress contains only a summarized checklist of the number of measures, which have been implemented and the stage of implementation of other measures." (p. 4);
- The authors highlight that there is "no mention and comment on (or disapproval of) the international surveys on the social situation and the progress on the Lisbon agenda, which shows that Bulgaria is the country with the poorest performance in the EU." (p. 4);

<sup>59</sup> Economic development and European perspective for South East Europe. Briefing note for the Joint Parliamentary Meeting on the Western Balkans co-organised by the European Parliament and the Parliament of Slovenia. Brussels, 26–27 May 2008, p. 4

<sup>60</sup> In June 2010 Romania will host the first peer review in South Eastern Europe, <http://www.peer-review-social-inclusion.eu/peer-reviews#2010>, dealing with the topic of "Achieving excellence in social service provision" and evaluating an accreditation system for social service providers introduced in 2004, <http://www.peer-review-social-inclusion.eu/peer-reviews/2010/achieving-excellence-in-social-service-provision>

<sup>61</sup> Bulgaria: Assessment of the 2008–2010 National Reform Programmes for Growth and Jobs from a social inclusion perspective: The extent of synergy between growth and jobs policies and social inclusion policies. A study of national policies, drafted by George Bogdanov and Boyan Zahariev, published in October 2008, accessible for download at the following URL: [www.peer-review-social-inclusion.eu](http://www.peer-review-social-inclusion.eu)



- They continue by emphasizing that “even in the case of employment policies, in which Bulgaria has performed strongly for many years in a row, the report does not seem to recognize that the financial and economic crisis may create some important new challenges”. (p. 4);
  - The report is also critical on the actual use of EU funding to tackle problems related to social exclusion, the performance of labor markets, or the professional qualifications of the workforce, by stating that “the European Social Survey (<http://www.europeansocialsurvey.org>) ... shows that Bulgaria has the worst performance on a number of social indicators, including subjective perception of well-being as measured by the share of people who find it difficult to make ends meet with the income they receive. (p. 5) ... The money from the EU Social Fund is practically the only resource, which has been utilized by Bulgaria, but the absorption rate has been rather small. ... The major problem is the insufficient capacity of the administration which has been entrusted with the management of the program”. (p. 6);
  - The authors make mention of the announcements made in the Bulgarian NSR claiming that “the government might raise income above the level of labor productivity growth only in relation to the need for compensations to low-income citizen groups, in view of the significant price rise of energy sources” (p. 7) and note “that in recent years the government has not observed this principle and has systematically promoted measures, which leave more wealth in the hands of high-income groups, e.g. by effectively reducing taxes for them. We think that income support schemes for the low income groups will be a much more effective tool for strengthening domestic demand.” (p. 7);
  - As to the requirement to improve the governance of the social inclusion processes initiated and framed at EU-level they conclude that as a rule “the business circles and the civil society sector are vaguely familiar with this program; moreover, these stakeholders have not taken part in its design”. (p. 9);
  - The authors deplore that “there are too many strategic documents in the country, which hardly follow a common logic and vision not only in the area of social policy, but also in the areas of education, economy, and health care.” (p. 9).
- One decisive question for the near future is: *“What do trade unions and civil society organizations wish and expect from the European Union to support their policy work in fighting poverty and social exclusion?”* Several mutually non-exclusive options exist in this respect:
- Additional expertise on how to address challenges, based on institutionalized processes of exchange of experiences and good practices. Then also the peer review process should be better used by both Bulgaria and Romania;
  - Further organizational or administrative support and counseling to build up structures, schemes, institutions and services. This can be done for the social partners, in particular the trade unions, and for organizations of the civil society and from the social economy/ third sector. This also extends to “private provision” of social services and education, which can be delivered either by commercial or not-for profit entities and can be organized in different legal forms. In this context it is important to recall that organizations belonging to the social economy do not pursue a profit-maximizing logic, but rather aim at combining economic activity with the pursuit of a specific goal of the social, health, em-



ployment, housing, and education policy for the benefit of public interests;

- Financial support, e.g. based on the European Structural Funds, such as the European Social Fund (ESF) and the European Regional Development Fund (ERDF).

### ***Empirical Evidence from the Spot – Snapshots of Poverty and Social Exclusion in the EU on the Background of the Current Crises***

To illustrate the need to refocus across Europe the policy priorities concerning the fight against poverty and social exclusion if we want to *move towards a Europe with inclusive societies and a fair distribution of income and wealth*, this section lists a selection of recent *data on poverty and social exclusion*. As a rule, they all refer to 2009, but nonetheless point to today's major social problems and related challenges:

- Since 2000, no overall improvement in terms of poverty reduction can be seen. A poverty decrease has been observed only in Ireland, the Netherlands, Portugal, and Poland, before the crisis on the financial markets, in the real economy, and on the labor markets started in late 2008;
- About 80 million EU citizens are at risk of poverty (16%), i.e. 1 out of 7. In other words, numerous women, men, and children, whose total number is equivalent to the number of all inhabitants of Germany, cannot live in dignity, do not have a decent income, and do not have access to health and social services;
- One out of five children lives in a household below the poverty threshold, which is defined to amount to 60% of the average income;
- The highest risk exists for children and older people (19%); large families are hit the worst (24%), as well as single women (25%), and single parents (35%);
- Big purchasing power differences continue to exist across the EU27 for those with an income corresponding to the poverty threshold, ranging from 250€ (Lithuania, Latvia) to 850€ (Austria, Luxembourg, the UK);
- Working poor or in-work poverty: In the EU15 – 7% (employed 6%, self-employed 17%); In the 10 New Member States – 9%; Across the entire EU in 2006 shares ranged from 14% (Greece) to 3% (the Czech Republic);
- Twenty EU Member States have fixed statutory minimum wages, ranging from €1,400 (Luxembourg) or €1,200 (Belgium, the Netherlands, the UK) to €300 (Estonia, Lithuania, Latvia) or 200€ (Bulgaria, Romania). In 7 Member States (Austria, Cyprus, Germany, Denmark, Finland, Italy, Sweden) such fixed statutory minimum wages are lacking; but in these countries minimum wages do exist on the basis of collective agreements, that can be declared to be generally applicable by the competent ministries; there are, however, large differences between countries and sectors as to the coverage of collective agreements and minimum wage regimes;
- More people live in poverty in societies where there are greater inequalities in income distribution (from employment and self-employment) and wealth.

Another set of *data informing about the effectiveness of social protection schemes and important problems* (building on publications of EAPN) is listed below:

- Social transfers on average reduce the risk of poverty by 38%, but there are big differences in the effectiveness between different schemes, ranging from a reduction by about 18% (Belgium, Spain, Greece, Italy, Latvia) to a reduction by around 50% in the Nordic countries (Denmark, Finland, Sweden) and Central

- Europe (the Czech Republic, Germany, the Netherlands, Slovenia);
- The lowest poverty rates exist where the largest amounts of money are spent on social benefits in a cross-EU comparison; this means that the efforts to reduce inequalities in income and wealth reap off benefits with respect to equality and equal opportunities;
  - Expenditures on social protection have been stable in the period between 2002 and 2005, despite increasing demands; on the average, across the EU27 more than  $\frac{3}{4}$  of total expenditures go into pensions and health care (46% and 24%), and only 4% into housing and social exclusion benefits;
  - Minimum safety nets rarely protect people from poverty. Thus for instance, 1) in most Member States families on social assistance live below the poverty line, except for Germany, Ireland, Latvia, and the UK; 2) we can witness low take up rates varying between 40-80% (OECD 2004);
  - Problems: 1) no minimum income schemes have been introduced in Greece, Hungary, and Italy; 2) levels are set without direct relation to (special) needs, e.g. access to affordable services (healthcare, childcare, housing); 3) insufficiently transparent procedures and evidence-based methods for setting and updating/ indexing benefit levels; 4) activation policies for unemployed persons are based on conditionalities, i.e. there is a threat of benefit cuts or reductions for those at the fringe of labor markets, even if appropriate work is unavailable, particularly given the rising unemployment rate and lower demand for labor.

Europe is being confronted with financial and economic crises that entail important *risks for the economic, social and territorial cohesion across Europe and create challenges for inclusive and participatory societies for all citi-*

*zens*. This holds particularly true for vulnerable and disadvantaged individuals and groups facing discrimination and exclusion. In a report issued in early February 2009, the Commission warned against the strongest economic downturn for decades, entailing dreadful social consequences as well. Across Europe, governments are concerned with implementing short- and mid-term measures to stabilize and boost mass consumption and to maintain jobs (or at least to minimize job losses). Social NGOs and trade unions welcome these steps, but see the danger that upon the implementation of respective exit strategies from the crises, the *policy aim of creating decent jobs and increasing the quality of working and employment conditions will be lost out of sight*. At the same time the sustainability of our social protection systems is at risk. How to fund tax reductions, often suggested as a panacea these days, while social expenditures will have to be increased at the same time to address the negative consequences of the crises? It is important to recall that the neo-liberal, long-popular and dominant 'no-regulation is a better regulation' mantra, consisting in the very rejection of any or of adequately muscled regulations by nation states and international institutions, is one of the underlying reasons for the current turmoil and for the serious structural problems experienced by the financial markets. Different Member States have been hit to a different extent by the crisis: Whereas Belgium, Spain, Ireland, and the UK were affected first, the impact then became particularly strong in the New Member States, particularly the Baltic states (Lithuania, Latvia) and Hungary, and later in Sweden, Greece and Portugal. Looking at the European level debates and initiatives, taken to tackle the consequences of the *crisis on the financial markets, in our economies and on the labor markets* during 2009, we can conclude that some recognition of the value of social protec-

tion schemes as automatic stabilizers has been made. Broad consensus has been reached about the beneficial consequences of cash benefits to people on low income, as they prevent hardship. Due to the low savings rates of low-income earners, they are also used to buying key goods and services without delay, thereby boosting consumer spending. There is, however, still insufficient recognition of the inconsistent rationales and objectives of the Lisbon Strategy, and the contradictory pressures exerted by the Stability Pact, a cornerstone of the European Economic and Monetary Union, to reduce public deficits; deficits that in turn have been caused by bank bail-outs in several Member States. In addition, the bail-outs of New Member States agreed with the International Monetary Fund (IMF) set conditionalities that also require reductions of social protection benefits and wage levels, too (Hungary, Latvia, and Romania)<sup>62</sup>.

When asking the Commission and the Social Protection Committee what has been happening to social protection, they both claim that Member States have also been partly maintaining increasing levels of social protection (e.g. prolongation of entitlements to short-time work in Germany, Luxembourg, etc., which is partially combined with further training, too). The major *impacts in the fields of social protection, social inclusion and employment as a consequence of the crises* (again building on analyses made by EAPN) can be said to be as follows:

- Most obviously the loss of many jobs and all those women and men in most precarious working conditions (fixed term; tem-

porary agency work; migrants, also undocumented migrants) have been hit first;

- Increase of the situation of over-indebtedness for many households;
- Direct reduction of health and social services, especially those offered by NGOs (Spain, Ireland);
- Regressive activation strategies that run the risk of penalizing the unemployed with reductions in benefits when no jobs are available for them to go to;
- Strong risks to the viability of funding social protection systems, with recourse to measures such as cutting employers' insurance contributions (e.g. Finland).

The Economic Recovery Plan proposed by the European Commission on November 26<sup>th</sup> 2008 does not represent a major shift from the prevailing paradigms, as all major proposals have been phrased in line with the Lisbon Strategy, with an explicit attempt to include them under currently existing policy frameworks. For example, measures related to employment are framed with references to the flexicurity and active inclusion agendas, highlighting the need to put particular emphasis on measures to promote employability, lifelong learning, and rapid reintegration into the labor market. Social NGOs, too, for a long time now have called for policies actively promoting social inclusion and for a revised Lisbon Strategy based on a sustainable social and environmental growth and job creation. The final version of the Economic Recovery Plan *places a stronger emphasis on "the most vulnerable"*, as the Commission package calls for measures to lessen the impact of the crisis on those more vulnerable groups. This is positive and in line with a proposal from the Social Platform made in mid November 2009, which highlighted the need to place a greater focus on the social consequences of the crisis. And yet, other European networks of social NGOs, under the umbrella of SOLIDAR, however, de-

<sup>62</sup> In many of these countries the approach taken before the crisis was to grow the economy first and worry about investment in social infrastructure later. The social consequences arising from this approach were shrouded by the fog of growth measured through the GDP and more wealth for a shrinking middle class. But now the crisis has led to drastic cuts to already feeble public and social expenditures. Schools and hospitals have been closed. Teachers and nurses have had their salaries cut by up to 20% or 30%, as in Latvia in 2009 for instance.

plore the lack of any explicit mention either of the need to refocus investment in social infrastructures (in social and health services, and in the various fields of the social economy in particular) and to fight financial exclusion, or of the role of civil dialogue in fostering social inclusion and active inclusion processes.

In the Economic Recovery Plan, interestingly enough, the role of social services is highlighted first and foremost as a growth area in terms of job creation, which “should be encouraged in areas such as personal healthcare and social services, which are a rich source of job creation and also serve as a tool for access and opportunities”. SOLIDAR welcomes the recognition of the employment (job creation) potential of the third sector. However, we also witness the increasing difficulties public authorities are facing to finance their depleting budgets and the clear risk of decreases in wages and salary schedules, as well as an increasing number of precarious work in this sector. As the current crisis is expected to create even more unemployment and social exclusion, in SOLIDAR’s view a *broad range of public policies and a comprehensive net of social services*, funded by both income generated by employment (social contributions) and public funding (based on taxes), should be stimulated. The crises, however, will put some strain on both sources of funding and one can only fear that the financial basis for both social infrastructures and qualified personnel will shrink. This is a scenario that is most likely to create new threats for the development of accessible, affordable, and quality social services.

SOLIDAR supports the *proposals set out by social NGOs for ways out of the crises*<sup>63</sup>. SOLIDAR backs in particular the following calls: 1) No backtracking on social, health and educa-

tion investments; 2) Investment in a core set of services to create sustainable and decent jobs; 3) Implementation of the Commission Recommendation on active inclusion and of anti-discrimination legislation; 4) Concentration of money from the European Social Fund on objectives of social inclusion policies. Everybody should be guaranteed access to basic banking services to effectively fight financial exclusion, too. In addition, *there is a clear need to tighten financial regulation when reforming the financial market architecture*.

### ***The European Social Model***

The Barcelona European Council of March 2002 defined the European Social Model (ESM) as being based on “... good economic performance, a high level of social protection and education, and social dialogue.” It developed on the basis of achievements of the last decades, such as universally accessible systems of education and health, “institutionalized solidarity” within comprehensive social protection structures, income gaps kept relatively small through redistribution, the contribution of social protection to economic productivity, and a high degree of social peace resulting from a well-articulated social partnership. The values embodied in these achievements include human dignity, equality, justice, solidarity, and subsidiarity, and correspond to the basic values, principles, and rights set out in the Charter of Fundamental Rights of the European Union<sup>64</sup>. In the broad coalition of Social Platform member organizations, SOLIDAR advocates for such a European Social Model to become a key frame of reference for the revision and further development of the Europe 2020 Strategy.

<sup>63</sup> See <http://www.socialplatform.org/PolicyStatement.asp?DocID=19906> for the Social Platform Paper of 19 November 2008.

<sup>64</sup> Further reading on the ESM:

1) Lothar Witte: *Europäisches Sozialmodell und Sozialer Zusammenhalt: Welche Rolle spielt die EU?* Friedrich-Ebert-Stiftung (FES) (ed.): Internationale Politikanalyse. Europäische Politik, Dezember 2004;

The European Social Model in its *different national interpretations and configurations* has to be seen, in times of crisis in particular, as a point of reference for investment in the mechanisms of collective solidarity and in inclusive and democratic societies.

- *Social policy* defined in a broad manner (comprising the fields of employment, health, social protection, and housing) *also has to be seen as an investment, not only as a cost*. Sustainable economic and social development can only be safeguarded if sufficient investments are made in the social infrastructure. In turn, they are needed to promote social inclusion and to strengthen social and territorial cohesion. Infrastructure here is to be broadly understood in the sense of comprising the institutions and services (e.g. social insurance, training, housing), qualified personnel, and volunteers, as well as sufficient funding from collectively financed sources. Only with such an infrastructure, a rights-based approach for individuals and groups, investments in people to improve their qualification and empower them, as well as measures supportive of a redistribution of income and wealth can – in SOLIDAR's view – prevent societies from

increasing income inequalities, growing poverty, exclusion (both from society and employment), and prevent any discriminatory treatment, too.

- SOLIDAR also recalls the *beneficial effects of tested alternative models of economic activity*, namely different forms of value based social entrepreneurship (*entreprendre autrement*). Organizations of the *social economy* are successfully linking economic efficiency with the pursuit of the common interest and the realization of social policy objectives, in particular labor market inclusion and participation in society, also including vulnerable and disadvantaged individuals.

The *further development of the ESM* is strongly dependent on how the Lisbon Treaty will be used by policy makers and how it will be interpreted by the European Court of Justice (ECJ). Recurrent questions are:

- Do we need more legislation or rather a reinforced OMC<sup>65</sup>, mainly in the fields of social protection/ social inclusion, migration, youth and education?
- What would be the supplementary role for an intensified exchange of experiences and good/ bad practices?
- Which European minimum standards do we need and why? E.g. an agreement for a common EU definition of adequacy and of common methods to establish adequacy, as well as regular updating in line with the cost of living within the framework of a Framework Directive on Minimum Income?
- Should we make more use of common principles or guidelines, an instrument already elaborated and implemented in view of flexicurity and active inclusion, and currently developed in view of the quality of SSGI?

2) Alexander Petring/Christian Kellermann (2005): New Options for a European Economic and Social Policy. Friedrich-Ebert-Stiftung (FES) (ed.): Internationale Politikanalyse. Europäische Politik, Oktober 2005, <http://library.fes.de/pdf-files/id/03028.pdf>;  
3) Friedrich-Ebert-Stiftung (FES) (ed.) (2005): Das Europäische Sozialmodell im 21. Jahrhundert. Diskussionspapier. FES Gesprächskreis Arbeit und Soziales, <http://library.fes.de/pdf-files/asfo/02931.pdf>;

4) Friedrich-Ebert-Stiftung (FES) (ed.) (2006): Think Social, Think European: European Integration and National Social Policies. FES Social Policy Forum, <http://library.fes.de/pdf-files/asfo/03714.pdf>;

5) Peter Herrmann/ Mathias Maucher (2006): Gesamtbericht/ General Report. In: Institut für Sozialarbeit und Sozialpädagogik (ISS) (ed.) (2006): Die Zukunft des Europäischen Sozialmodells: Eine deutsche Perspektive/ The Future of the European Social Model: A German Perspective. Frankfurt am Main: ISS, pp. 57-75;  
<http://www.soziale-dienste-in-europa.de/dokumente/Aktuelles/zukunft-esm-eine-deutsche-perspektive2005.pdf>;

6) Brian Nolan (2007): A comparative perspective on the Development of Poverty and Exclusion in European Societies. Friedrich-Ebert-Stiftung (FES) (ed.): Internationale Politikanalyse, <http://library.fes.de/pdf-files/id/05016.pdf>

<sup>65</sup> For related proposals see: [http://www.solidar.org/Page\\_Generale.asp?DocID=17574&thebloc=20557](http://www.solidar.org/Page_Generale.asp?DocID=17574&thebloc=20557)



***A Role to be Played by Europe to Promote the Values and Principles of the European Social Model and Policies Designed to Implement the Objectives of the Lisbon Treaty***

Massive cuts in employment as a result of the current crisis do not only create precarious situations or poverty for the women and men concerned, but have an impact on the development of neighborhoods, cities, or whole regions. In the medium term, *rising dangers and poverty, and an increasing number of vulnerable people* such as migrants or young adults without a job or good prospect of getting one in the near future pose a *threat to democracy* as the participation of all citizens in society and the representation of their concerns in the decision-making processes are no longer guaranteed and increasingly larger shares of the population live or grow up without the prospect of equal opportunities and social promotion. With rising poverty and exclusion also comes the disintegration of societies.

*Policy priorities* in the forthcoming months should therefore not only be focused on the reestablishment of a functioning banking system and the stability of the common European currency, but *also and especially so on supporting those people and groups in society, which have immediately been affected by the crisis.* (New) social risks need to be addressed within the EU, given the fact that:

- Nearly one out of 6 European citizens is currently living near or below the poverty threshold;
- A growing number of unemployed and young adults have no vocational qualification;
- There is an increasing number of working poor and persons in precarious jobs, who work under atypical contracts or without decent working conditions, in spite of the creation of 15 million new jobs across Europe in the last decade;

- There are unsolved challenges related to labor migration from outside the EU and within the EU, which are also calling for putting into place respective systems for recognizing professional qualifications acquired outside the country of current residence or workplace;
- There are high and most probably increasing numbers of undocumented migrants, mostly women;
- There are growing inequalities in life chances and the distribution of income and wealth;
- There is persisting discrimination on the grounds of gender, age, disability, ethnic background and/or race, sexual orientation, religious belief or philosophy of life, both in the labor market and beyond, in all spheres of society, not least with regard to accessing services of common interest.

The *EU has an active, even pro-active role to play in ensuring the effective implementation of fundamental (social) rights* as stipulated in the Charter of Fundamental Rights. In fields such as (gender) equality, non-discrimination, workers' protection, social services or integration of migrants, the potential of the Lisbon Treaty should be exploited. *Europe has to set standards* (e.g. in employment and vocational training), *regulation* (e.g. for posted work and temporary agency work), and *requirements* (e.g. as to the legal framework and quality of SGI and SSGI) *to prevent European citizens, in particular the more vulnerable, disadvantaged, and less mobile amongst them, from losing out* as a result of increased internal market integration and exposure to influences from trade and financial market policies stemming from the European or even the global scale of operation.

If Europe intends to deliver on poverty reduction and to have a decisive impact on fighting the different facets of poverty, social



exclusion and discrimination more effectively, it has to *strengthen the involvement of trade unions and civil society organizations, both at national and European level*. This would increase the probability of exerting real impact on the main orientation, targets, indicators and processes of monitoring related to the:

- The Lisbon Strategy (until 2009/ 2010): National Reform Program (NRP); National Reform Strategies on Social Protection and Social Inclusion (NRS SPSI);
- The Europe 2020 Strategy (as of 2010): National Reform Program (NRP); Flagship initiatives, including the European Platform against Poverty; national policy targets and indicators;
- The European Employment Strategy 2010–2020, defined by the new set of Integrated Economic and Employment Guidelines;
- The reinforced OMC on Social Protection and Social Inclusion to strengthen policy coordination and – where appropriate – to effect policy convergence: definition of national targets; input in reports (data; examples); assessment of NSR and of the recommendations by EC; peer review process, etc.;
- European Year 2010 for Combating Poverty and Social Inclusion: National Implementation Bodies (NIB); activities and funding;
- Implementation of the Commission Recommendation on Active Inclusion.

A study recently published by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) highlights the role, which social partners can play in addressing not only precarious labor but also social exclusion<sup>66</sup>. Whereas trade unions on

the European scene have an important role to play in the framework of the *European Social Dialogue*, especially in view of drafting legislation – as has been done over the past years, e.g. parental leave; maternity leave; working time; posting of workers; temporary agency work; seasonal work – civil society organizations have to reassert their role in the framework of *civil dialogue*. They can fall back on new instruments of the Lisbon Treaty, which are supportive of participatory governance, such as the Social OMC. They should actively promote events focusing on the fight against poverty and social exclusion, such as the annual Round Tables on Combating Poverty and Social Exclusion, the annual meetings of people experiencing poverty and social exclusion<sup>67</sup>, and the peer review process.

### Contact

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<sup>66</sup> Eurofound (ed.) (2010): Foundation Findings: Opening the door – The role of social partners in fostering social inclusion, <http://www.eurofound.europa.eu/publications/htmlfiles/ef0944.htm>

<sup>67</sup> The purpose of these annual meetings is to listen to people experiencing poverty, and to establish a dialogue with policy- and decision-makers in the field of combating poverty and social exclusion at the European level and at national levels. It is also about stimulating activities and initiatives involving marginal groups into the processes of seeking solutions and building strategies and policies to improve their lives. More info on the 2008 meeting: [http://ec.europa.eu/employment\\_social/spsi/events\\_en.htm#7\\_meeting](http://ec.europa.eu/employment_social/spsi/events_en.htm#7_meeting) and on the 2009 meeting: <http://www.eapn.eu/images/stories/docs/eapn-report-2009-en-web2-light-version.pdf>

## Bibliography

### Links to SOLIDAR Papers, Projects and Newsletters Dealing with “Social Inclusion” and/ or South Eastern Europe

Social Policy: Resources and Publications:

[http://www.solidar.org/Page\\_Generale.asp?DocID=14754&la=1&langue=EN](http://www.solidar.org/Page_Generale.asp?DocID=14754&la=1&langue=EN)

Project “Together for Social Europe”:

[http://www.solidar.org/Page\\_Generale.asp?DocID=14407&la=1&langue=EN](http://www.solidar.org/Page_Generale.asp?DocID=14407&la=1&langue=EN)

Project “Decent Work: A Key for Effective Industrial Relations”:

[http://www.solidar.org/Page\\_Generale.asp?DocID=14404&la=1&langue=EN](http://www.solidar.org/Page_Generale.asp?DocID=14404&la=1&langue=EN)

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## Annex: Basic Concept Paper

### Policy Priorities for Social Inclusion in South-Eastern Europe

Daniel Arpinte,  
Adrian Dan,  
Alfred Pfaller,  
Manuela Sofia Stanculescu

*Achieving social inclusion despite low incomes  
Education and health care: the main pillars  
Incorporating more persons into the formal labor market  
Creating new jobs  
Making people more employable  
Making available jobs more accessible  
Case-specific attention for special problem groups  
Cash assistance in selected cases*

#### **Social Exclusion Can be Overcome...**

...in a relatively short period of time, should the right policy be pursued. In this paper we propose a package of effective policies, which takes into account the economic constraints prevailing throughout the region. In fact, the recognition of these constraints is an essential element of what we propose.

*Social Inclusion Understood as a Standard of Living in Touch with the Country's Economic Possibilities*

*When talking about "social inclusion" and "social exclusion" we focus on the material aspects of these concepts, i.e. an individual's standard of living in comparison with that of his/ her compatriots. According to this per-*

*spective, socially excluded are those who lack access to goods and services considered as essential for a "decent" standard of living in line with the national mainstream. Our concept of social exclusion is slightly different from the concept of poverty. The latter refers to an individual's or a household's real income in comparison with the national average. In turn, the concept of social exclusion, the way we use it here, makes a distinction between the various elements of "real income". Some elements we consider as "essential", others we do not. Those who enjoy the "essentials" are considered to be "socially included", even though they might be "poor" in terms of comparative real income. On the other hand, people whose real income would not qualify them as "poor" might be socially excluded.*

*This distinction between poverty and social exclusion is important for our policy recommendations. We do not see a feasible way to eradicate poverty in South Eastern Europe within a few years. But we claim that adequate policies can nonetheless eliminate social exclusion. In fact, our recommendations aim at social inclusion in the context of unavoidable wide-spread poverty.*

*We are aware that there are other, non-material, dimensions to social exclusion. We neglect them here in order to focus on a political agenda that is highly relevant, even though it is certainly not comprehensive. In other words, our policy objective of material social inclusion is limited, but it is important and, despite its limitations, it is quite demanding. If it were to be achieved, this would be a tremendous success. On the other hand, the attempt to tackle all aspects of social exclusion in a comprehensive strategy all at once easily diverts energy and resources from achievable priority goals, replacing them by an "eternal" a*

*The Need for Priorities*

Our proposal is about priorities. We say that governments should concentrate their efforts on a few policy fields in which, under the given circumstances, the highest value added in terms of social inclusion can be obtained. Our selection of priorities is based on an assessment of what *cannot* be achieved in the foreseeable future, desirable as it may be. In none of the countries in the region (Slovenia and Greece excepted) it is realistic to expect that all working-age adults will earn an income that allows them to buy those essential goods and services on the market that make the difference between social exclusion and inclusion. In fact, the percentage of those without a decently paying job or economic activity will remain very high indeed for many years to come. Moreover, governments will not be able to top up low incomes with enough public money to overcome large-scale social exclusion.

*Proactive Policies and Policies Targeted at Excluded Groups*

Policies against social exclusion can aim at generating a situation, which leaves nobody excluded. We might call them proactive policies. And they can target those who are socially excluded, trying to get them out of the situation of social exclusion. Proactive policies are much more important to arrive at a socially inclusive society. If successful, they do away once and for all with large parts of social exclusion. By eliminating important mechanisms of social exclusion, they prevent the problems from continuously re-emerging. Thus, they obliterate, or at least reduce the need for targeted policies.

However, the present reality in South Eastern Europe is characterized by the existence of sizeable groups of socially excluded people who are beyond the reach of proactive universal policies. A strategy of social inclusion that truly deserves this name cannot neglect them.

It must devise means that help them to become included (or re-included). These means may have to be rather specific, i.e. related to the particular situation the target group finds itself in now. Addressing the mechanisms that got it into this situation is not enough.

*Education and Healthcare: the Main Pillars of a Viable Social Inclusion Strategy in South Eastern Europe*

If it is unrealistic to overcome the gap of money income that makes for social exclusion, policy must focus on making available the “essentials” of a decent living independently of people’s income. The “essentials” on which the inclusion policy in South Eastern Europe should concentrate are education and health care. They constitute the main pillars of a viable social inclusion strategy in SEE.

Why education? And why health care? Because we consider them to be indispensable mechanisms of sustained social inclusion. We consider health a primary right that cannot be conditioned on income. Education, in turn, is the key to the individual’s chances on the labor market and we postulate that nobody should have fewer chances because he or she comes from a poor family. In other words: equality of *chances* is essential for social inclusion, even if it must be accepted that many will not succeed on the market – due to the shortage of well-paying jobs. Universal access to good education is not only crucial for social inclusion, it is also one of the keys to a country’s success in the world market and, thus, to national prosperity.

*Jobs: the Third Pillar*

We propose a third pillar of social inclusion in SEE: maximizing the capacity of the labor market to provide jobs. This policy line is a priority because it addresses the origin of social exclusion, weakening its grip on SEE societies. To the extent that job creation succeeds,

social inclusion will become more encompassing, extended beyond the two “essentials” of health care and education.

#### *Social Services: the Fourth Pillar*

We finally propose a fourth policy line. It addresses the needs of that heterogeneous group of disadvantaged people that suffers from more than just low income, the links of which with the mainstream of social life have been severed for a variety of biographic and other reasons. We speak about social services.

#### *A Battle to be Won*

Our proposal does not claim any originality. It contains nothing that has not already been said many times by highly competent individuals and institutions. We submit our proposal nevertheless, because we see a need for political orientation in the multi-focused, often incoherent and non-strategic social policy discourse. Most of all, we see the need for policy priorities, i.e. for a well-founded selection of policy lines to be pursued in a determined way – with a commitment to definitive success, not just as an area of attention. We approach the pursuit of social inclusion as a battle to be won, not as an eternal construction site.

### **Education**

#### *Why is Education a Priority for Social Inclusion?*

Access to *good* education for *all* children and youngsters, including those from poor families, from remote rural areas, and of Roma origin, must be a priority for any strategy for social inclusion in South Eastern Europe.

- *Key to a decent income:* Education is the key to an individual's chances of earning a decent income in the market. Disregarding individual exceptions, it is the only way to overcome a child's disadvantage of being born in a poor and/ or excluded

family. A society that has a highly unequal distribution of income and wealth has to emphasize the more on the equality of chances, which comes with the universal access to good education;

- *Economic feasibility:* Good education for all is perfectly feasible even for very poor countries. There is no plausible economic reason, which would make it unattainable. It is more a matter of political will;
- *Decaying in South Eastern Europe:* Throughout most of South Eastern Europe, increasing parts of the young generation can no longer take good education for granted. It takes a decisive political effort to turn the universal good education into reality (once again);
- *Key to economic development:* Education is not only the key to a young person's life chances. It is also the key to national economic development. Universal access to good education carries a double dividend: it reduces social exclusion and increases national prosperity.

#### *Six Basic Requirements*

A state committed to universal good education must:

- 1) ensure the access to schools providing education up to a high school degree physically available throughout the country;
- 2) make sure that no school offers education below a certain quality standard;
- 3) make sure that all children from the age of 6 to the age of 16 attend school;
- 4) make sure that the learning disadvantages that originate from certain family backgrounds are eliminated as much as possible, or in other words, that all children and youngsters have equal chances at school in line with their biological endowment;
- 5) make sure that everybody with good school grades can advance to higher education, independent of family income or background;

- 6) make sure that high-standard university education is available to all those who qualify by virtue of their intellectual capacity.

#### *Ensuring Physical Access*

Equipped and sufficiently staffed schools must be available throughout the country, so that all children and youngsters, wherever they live, can attend them. Where efficiency considerations stipulate the concentration of schooling in a limited number of towns and villages, adequate transport facilities must be made available for those children who live too far away from the school centers.

#### *Ensuring Quality: the Importance of Central Control and Competitive Salaries*

Ensuring high quality of teaching throughout the country requires:

- good teachers;
- good didactics, and
- good curricula.

Providing good teachers requires first of all, that capable persons be attracted to the teaching profession. Then it requires that teachers get a good training in their profession and that they should be obliged to pass high-standard exams before getting permission to teach. Finally, it requires that the accredited teachers be made available to *all* schools throughout the country.

Three things are crucial for the universal availability of good teaching personnel:

- competitive salaries and other professional incentives;
- centralized control of teachers' training, professional accreditation, and an ongoing assessment of teachers' performance;
- centralized assignment of teachers to the schools throughout the country.

Teachers should be employed by the state, not by local authorities. *In countries characterized by a large gap between urban and rural living conditions and between the*

*revenues of rich and poor municipalities or counties, these conditions cannot be met, if town halls, municipalities, or county administrations are the employers of teachers. The teaching personnel must be employed by the central government or at least by a larger regional authority with control over a good mix of urban and rural territories and with sufficient revenues to pay adequate salaries.*

*Furthermore, the ultimate choice of a school cannot be left to the individual teacher. A mandatory assignment procedure is needed, similar to the one in a country's diplomatic or military services. This does not have to exclude the opportunity that senior teachers' geographic preferences should be taken into consideration as much as possible. Western European countries such as Germany, Austria, or Belgium reserve their right to assign teachers to places where they are needed most.*

As far as didactics and curricula are concerned, these, too, must be subject to standards, which have been ensured by a central school authority. From the point of view of human-capital formation, less from the point of view of social inclusion, it is highly desirable that the mandatory curricula emphasize on intellectual/mental capabilities and promote independent thinking, problem-solving, and initiative.

#### *Ensuring Universal School Attendance: by Enforcement, if Necessary*

If education is to be a mechanism of social inclusion, not exclusion, it cannot simply be an offer. It has to be a "must" for all children and youngsters. This implies that the choice between school attendance or not cannot be left to the parents, who, for whatever good or not so good reasons, might opt for not sending their kids to school. Children's rights to be prepared well for their adult life are to be valued higher than parents' rights to have different opinions.



In enforcing the obligation to attend school, positive persuasion is to be preferred (e.g. through free meals in schools), but coercion must be applied as "*ultima ratio*" where persuasion fails.

Needless to say, if school attendance up to the tenth grade is a universal obligation, it must be financially affordable for the poor as well. This implies that books and other expensive materials should be made available for free to the children from poor families. This, too, has been common practice in West European countries.

#### *Neutralizing Milieu Disadvantages: Universal Pre-schooling*

It is well known that children who are not challenged intellectually at home from early age on do significantly worse at school than others. They will not have the same chances later in life as their peers from more education-friendly backgrounds. A policy of social inclusion should neutralize this disadvantage as much as possible

- by providing pre-schooling throughout the country, including the rural areas, and
- by having children attend school all day, not just half-day, combining lessons with supervised individual and group work.

The countries that score best in the famous PISA study do just that.

#### *Free Education or Tuition Fees Plus Subsidies for the Poor*

The requirements, which a socially inclusive policy poses to education, are relatively straightforward. They do not leave much room for strategic choices. But with regard to two issues, there different options do exist. One of them refers to the issue of free education vs. tuition fees plus subsidies for the poor.

While there is an overwhelming support for the idea that primary education should be a public good, made available for free to

all children of the corresponding age group, things are different with regard to high-schools, as well as:

- universities; and
- pre-schooling facilities.

*All these can be offered for free to all children or youngsters of the corresponding age group. Or fees can be charged, while those who are considered too poor to pay them receive subsidies of one sort or another that enable them to attend.*

The option of treating education on the three levels mentioned as a "public good" that is to be offered universally free of charge has a clear advantage as far as social inclusion is concerned. Universal free access signals a civic right that leaves no room for discrimination between those who can pay and those who cannot. But non-discrimination hinges on the condition that the quality of public education is not inferior to the one of private education. Meeting this criterion might require a considerable financial and organizational effort on the part of the state. The South Eastern European reality shows that states have difficulties in this respect and easily end up offering inferior public education for those who cannot afford better private solutions – the opposite of a socially inclusive education.

Therefore, the fees-cum-subsidies option has the advantage of making the required resources for universally good education on all levels more easily available. It has the disadvantage that it requires a potentially cumbersome means-testing process.

The fees-plus-subsidies approach can be applied to a system of exclusively or overwhelmingly public education. In this case, the simplest way of subsidizing the poor is to exempt them from the obligation to pay fees. The approach can also be applied to private education. Subsidies to the poor must then take the form of vouchers that buy them the respective private services.

*Government-enforced vs.  
Market-enforced Quality Standards*

The simplest way of ensuring universal good quality seems to be that the government as the agency responsible for the common good shall set the standards. But this requires a functioning and impartial government that attributes a high priority to education. Another way to enforce high standards is to use the market mechanism. You need a (non-governmental) rating agency that publishes its findings and you need free choice of schools. The bad performers would then be punished by the clients who abandon them. They could, in addition, be punished by the state, which is entitled to reduce the salary premiums for the managers and the teaching staff of the badly performing educational establishments.

The rating approach to ensuring high standards might work most easily for universities. On the other education levels it can work, if there is a sufficient private supply that can accommodate the clients who abandon the bad performers. This is probably quite unrealistic for the country-side. Of course, such an approach is only compatible with a socially inclusive education, should the poor be given vouchers to attend the highly rated establishments.

*Politically Most Important: Top  
Priority for Education*

A socially inclusive educational system is not to be had cheaply.

- Teachers have to be paid relatively well;
- Schools have to be equipped well;
- Pre-schooling facilities have to be set up and staffed throughout the country;
- All-day schools require more (well-paid) teachers than half-day schools;
- Even if extensive use is made of tuition fees, subsidies to the poor have to be financed.

But in spite of all this, neither the low per-capita income of most South-Eastern European countries, nor the limited capacity of the South Eastern European states to collect taxes, can be valid excuses for the absence of a socially inclusive education. Financing such an educational system is not a matter of availability of resources, but of the priorities of resource allocation. In fact, the key to a socially inclusive education system (in itself a milestone on the way to economically feasible social inclusion in South-Eastern Europe) is the priority given to it in the political decision-making process. If politics assigns this priority, the good result will be guaranteed. All the technical issues that can and must be raised with regard to the structure of the educational system and the modes of paying for it are just that: technical issues.

## **Healthcare**

*Why is Healthcare a Priority for Social Inclusion?*

Access to adequate healthcare for *all* citizens, rich and poor, city and country folks, is a priority for any strategy of social inclusion in South Eastern Europe for three valid reasons.

*Human right:* From a normative point of view, nobody should be denied the possibilities, which state-of-the-art medicine can provide to fend off illness and to restore health in case of illness. Access to state-of-the-art healthcare simply should not depend on a person's income or wealth. It should be considered a human right.

*Economic feasibility:* The human right of adequate healthcare can be secured within a relatively short period of time even at very low levels of national per-capita income, should the right policy decisions be made.

*Neglect in SEE:* Throughout most of South Eastern Europe, significant parts of the population are denied access to adequate healthcare, because the necessary political decisions have not been made thus far.

## ***The basic options of securing adequate healthcare for all***

### *Public vs. Private Supply of Healthcare*

Conceptually, the simplest way to provide healthcare to all citizens is to set up a public service endowed with sufficient resources and well managed, so that it could be capable of having its functionaries abide by the rules of such public service.

An entirely different and conceptually more complex way is to leave healthcare provision to private initiative and the market, while making sure at the same time that those on low income are not pushed into a “low-end” segment of the health market where the protection offered is inadequate. But how can the poor (the term is being used here to denote all low-income citizens, independently of a particular definition of what constitutes poverty) be put in a position to buy adequate healthcare in a private market? One way or another, their demand in this market must be subsidized.

### *The Healthcare and the Insurance Market*

But before we consider the options of subsidizing the healthcare demand of the poor, attention must be directed to a complication that is particular for the health market. The need for healthcare is highly uneven, unpredictable, and at times well beyond “ordinary” people’s financial means. Therefore, it requires an insurance that protects the individual against the risk of high healthcare bills. People then do not directly buy healthcare, they buy insurance coverage. And it is insurance coverage that has to be made socially inclusive, if we want to pursue the option of a private healthcare market. For this, there are two basic options.

### *Linking Healthcare Delivery and Insurance: Public and Private Options*

*The public options:* The state maintains well-equipped and well-staffed clinics and hospitals throughout the country. All citizens have access to these public healthcare facilities – either for free or against a modest fee (of which the very poor can be exempted). The public healthcare facilities can be financed in two ways:

- out of the central government budget (much like the practice of the United Kingdom);
- by contributions that are mandatory for all citizens (defined as a percentage of income, with exemptions for the very poor).

### *Private Option A: Private Delivery, Flat-rate Insurance, State Subsidies:*

1. Healthcare is provided by private doctors (*family doctors or general practitioners, as well as specialists*), clinics, laboratories, hospitals, and pharmacies, which all compete for clients;
2. Law obliges all citizens to buy a health insurance;
3. It obliges all health insurers (in case there are more than one – see the discussions below) to cover all “serious” health risks, i.e. paying for all treatments necessary to restore health in case of illness;
4. Law forbids insurers to select good risks, i.e. to exclude people with a relatively high likelihood of needing expensive medical treatment. Law also forbids insurers to charge higher fees from higher-risk clients. Insurers will then charge each client the average healthcare costs per capita of the population plus a mark-up for the organizational costs and the profit of the insurance company;
5. The state subsidizes, out of its own budget, the health insurance of those citizens who can prove that their income is too low.

*Private Option B: Private Delivery,  
Income-related Insurance Fees:*

Law sets up the same framework as for private option A. But in addition it stipulates insurance fees related to income, so that nobody is excluded for lack of purchasing power. This implies that the richer citizens pay higher than average fees, while the poorer ones pay lower than average fees. The danger that the rich then would not buy such an insurance cover is precluded by the legal obligation to do so.

Of course, there are other criteria to be met for a viable healthcare system, stipulating other distinctions with regard to policy options. We consider two of them, cost efficiency and healthcare supply for the country-side in the course of the discussion of our three basic options.

*Pros and Cons of the Public Options*

*The pros: simple and straightforward*

1. Public health-care supply corresponds to the existing reality throughout South Eastern Europe. No all-out restructuring would be needed;
2. It is socially inclusive by design, because access does not depend on purchasing power. No complicated subsidy scheme is needed to grant access to the poor;
3. Public healthcare supply is not out for profit and seems best suited to keep doctors' costs under control, because doctors are public employees and paid accordingly.

*The Cons: the Syndrome of the Inefficient State*

Throughout South Eastern Europe, post-communist public healthcare supply has come to demonstrate serious deficits with regard to quality, scope, and reliability of delivery, as well as with regard to cost efficiency. Too little money is made available to the points of delivery, and most of all this holds true of clinics and hospitals. The practitioners within the public healthcare system do not apply the

rules and tend to make delivery dependent on illegal additional payment, so that poor patients are "filtered out" from even that deficient public healthcare, which currently exists.

All this could be mended, if public administration could be made to function well. After all, public healthcare has functioned reasonably well under communist rule and it is functioning reasonably well in the UK. But there are serious doubts that the post-communist state will soon acquire the capacity (a) to ensure the necessary allocation of resources to adequately fund public healthcare, and (b) to reduce significantly the system's endemic corruption. These doubts refer:

- to the lack of pressure on the political elite to make a sustained effort at enforcing efficiency against considerable resistance from within the system, as well as the lack of political rewards for doing so;
- to the difficulty of raising significantly public revenues, thus making more funds available for higher doctors' and nurses' salaries, for better equipment, and for a more comprehensive coverage of patients' medication needs;
- to the immanent – not SEE-specific – difficulty of ensuring efficiency and controlling waste in a bureaucracy with its lack of clients' power and the many hidden agendas of its agents.

*Pros and Cons Concerning Private Option A*

*The Pros: Efficiency for All, Subsidies for the Poor*

Market-driven supply has had the big advantage vis-a-vis public supply, namely that the clients have the chance to enforce efficiency and quality by patronizing the advantageous suppliers and pushing the others out of business. However, in a healthcare market, the pressure of competition must not be taken for granted. Still, such a potential exists, if the market is given an adequate framework, most of all if each one of the following conditions applies:

- Patients can choose between competing doctors, hospitals, laboratories, etc;
- Patients can choose between competing insurances;
- On behalf of patients, control bodies check up whether doctors' prescriptions with regard to treatment and tests are conducive to the restoration of health or are just increasing turnover;
- On behalf of patients, insurers negotiate prices with doctors, hospitals, laboratories, etc.
- providing for subsidies to the poor (and, if politically desired, for dependent family members).

*Altogether, this is not an easy target for the weak South East European states!*

Private healthcare can become easily quite expensive, if there is no adequate control mechanism in place. Since insured patients have no incentive to economize, this task is left to the insurer(s), who might tend to be passive and pass on the prices charged by well-organized doctors and other suppliers to their clients. For insurers to be cost-sensitive, competition for clients would be the strongest incentive. But it takes public supervision to keep up adequate coverage, preventing cut-backs. A non-competing national health insurance institution that acts like a patients' cooperative vis-a-vis hospitals, doctors, pharmacies, etc., could also control costs – if its managers can be induced to make the effort to do so.

Altogether, a private system tends to oversupply, neglecting costs, whereas a public system tends to undersupply without necessarily economizing.

The flat-rate-cum-subsidy provision for private option A might cause an excessive drain on public expenditures in countries where large parts of the population cannot pay for a flat-rate insurance fee and, therefore, need to be subsidized. Even if alternative solutions ultimately do not cost less to the people, the limited taxing capacity of the South-East European states has to be taken into account. Of course, this danger is the more serious, the less cost control, discussed above, succeeds.

#### *Pros and Cons Concerning Private Option B*

In comparison with a public system, the same considerations apply as stated above with respect to private option A. But how does private option B compare with private option A?

*But even if there is only one (public or semi-public) national insurance fund or institution, private suppliers usually look for business, tending to oversupply rather than undersupply.*

As far as social inclusion is concerned, the provisions of private option A have the advantage of keeping the market and the subsidies for the low-income groups separate. Health insurers are not involved in the difficult job of means-testing. Everybody's insurance fees are directly related to the average healthcare costs. Social solidarity is taken care of by the system that has been explicitly designed for financing public expenditures for public goods and through redistribution – by means of the tax system.

#### *The Cons: Major Restructuring, Danger of Cost Explosion, Drain on Public Funds*

Setting up a universal and private-supply based healthcare system with a flat-rate insurance fee and subsidies for the poor requires a profound restructuring. Three tasks have to be fulfilled simultaneously, so that the system can start and replace the old public one. The tasks are:

- turning public clinics and hospitals into self-sustaining enterprises (without necessarily selling them to private investors);
- setting up a mandatory universal insurance system;



*The pros: Efficiency is Similar to Private Option A, But Entails a Lesser Drain on Taxes*

Income-related mandatory insurance fees incorporate the indispensable subsidizing of the low-income groups into the health-care system. That frees the tax-system from the need for paying potentially huge transfers into the health system.

*The Cons: Difficult Control*

It is difficult, though probably not impossible, to have mandatory income-related insurance fees and competing private insurers, which would constitute a major device to press for efficiency. In any case, much regulation would be required to force private insurers to apply lower fees to poor clients and to accept poor clients at all. The danger is that without flat rates, competing private insurers create a two-tier system, with some specialization in the service provision in the higher end of the market (high prices and good healthcare) and another type of service provision in the lower end of the market (low prices, poor healthcare).

*How to supply the country-side with adequate health care?*

*The Public Option: the Easiest, if we Had a Functioning State*

The public option would theoretically have the fewest problems to accomplish this, if:

- the government were to set up a sufficient number of clinics and hospitals in the country-side, combined with mobile service stations and transport aids, similar to those existing in other countries with low population density;
- the government were capable of freeing the existing system from its serious deficiencies, to start with.

The second “if” brings us back to the fundamental doubts about the public option that have been laid down above.

*The Private Options: Mandatory Insurance Creates a Market in the Country-side, too*

The private options have to rely on incentives for private suppliers to set up business in the country-side. Since the private insurers pay competitive fees to the suppliers, there are business opportunities for practitioners to go to the country-side. The more so, if healthcare markets in urban areas are highly contested (oversupplied) and the business opportunities for the individual supplier are meager accordingly.

*A Hybrid Option ...*

... would rely basically on private market solutions, but would supplement them either with:

- public subsidies for doctors in the country-side, or
- public transport services for patients, or
- both.

A tentative recommendation: Private delivery, income-related insurance fees

None of these options point to a straightforward success. The political odds are not directly propitious for having any of them functioning well. But the alternative to all of them (perhaps the “realistic” option) is continued social exclusion, meaning that poor people on the average are less healthy, have more physical and mental handicaps, and live less long.

Weighing the advantages and disadvantages discussed above, private option B might be the best bet. The likely price to be paid would be to renounce competition on the insurance market. The ensuing loss of efficiency could perhaps be offset in part, if the insurance is set up as a patients’ cooperative, with top managers being elected by the patients and with an ombudsman who explores efficiency reservoirs and reports back to the patients.



## **Policies to Promote Employment**

*Why are They a Priority for Social Inclusion?*

*Gainful employment is the basic mechanism of social inclusion.* It provides the most important source of income for the “ordinary” people.

*Key to pensions:* The way pension systems function, gainful employment during most of the working life is the only way to acquire entitlements to old-age pensions (unless persons save on their own for the time when they can no longer earn).

*Tax base:* Unless the state concentrates on taxing consumption (VAT, excise taxes), its ability to finance public policies, including education and subsidies for the poor, depends to a considerable extent on the volume of salaries it can tax.

*The major deficit in SEE:* As a consequence of the almost unavoidable restructuring of the former socialist economies, millions of jobs have vanished throughout South Eastern Europe. The emerging capitalist market economy has so far created relatively few decently remunerated replacements. Why? In the early years after the change of the systems, economic growth was slow, few new production facilities were set up, while large parts of the old facilities had to close down due to their lack of competitiveness in the new market environment. When re-investment gained momentum, speeding up output growth, it did so at a much lower ratio of national work input per unit of output than the old, relatively unproductive socialist economy had done. The rhythm of job creation stayed well behind the rhythm of job destruction. In some of the countries that emerged from the former Yugoslavia, this systems-change effect was shadowed by the destructive effects of the various secession wars in the 1990s. With the formal labor market remaining far from absorbing the workforce, many people took

to “informal”, largely precarious, forms of selling their work services and carving out a niche for survival. This informal sector is part and parcel of the social exclusion syndrome in the entire South-Eastern Europe.

Lately, some countries, such as Romania or Moldova, have been facing an increasing shortage of manpower, both highly skilled and not so skilled. This is predominantly caused by labor migration abroad, which, in turn, is a response to the job shortage at home, as well as to the huge wage gap between domestic and foreign labor markets. At the same time, formal employment remains very low indeed and precarious forms of work, such as subsistence agriculture, continue to abound. Part of the problem here is that people do not move easily from low-employment to high-employment regions or localities.

*The Central Task: Incorporate More People Into the “Formal” Labor Market*

Our proposals are based on the premise that decently paying employment for all will *not* be available for a long time in most of South Eastern Europe. Still, everything possible must be done to strengthen the employment pillar of social inclusion. This implies that policies related to the labor market must concentrate on the creation of formal employment and not on the protection of the employed.

Employment creation is a public policy task in South-Eastern Europe, precisely because market dynamics alone will most likely be *unable* to provide for a adequate solution for a long time to come.

There are 3 strategic directions for public policy to help employment:

1. *Create new jobs*
2. *Increase employability*
3. *Reduce barriers to entry into the formal labor market*

*Creating New Jobs:  
Well Designed Public Work Schemes*

As economies grow, demand for labor will grow, too. But:

- not all economies have been growing at a fast rate yet;
- as new jobs appear, old ones still disappear, reducing significantly the net increase in employment;
- economic growth tends to be capital-intensive, requiring relatively little additional work input per unit of additional output.

Therefore, there is a case for the state to speed up employment growth by setting up relatively labor-intensive public work schemes. In addition to providing employment for additional persons, public work schemes carry 2 other benefits;

- Employment creation can be targeted at disadvantaged groups of the labor market (e.g. low-skilled workers, people in depressed regions).
- Public works, if well designed, improve the country's infrastructure, facilitating future economic growth and/or increasing the quality of life for all the citizens (e.g. improved road access to remote places).

But, of course, public works cost public money. Moreover, the additional benefits will materialize only if the schemes are well designed – something that requires a highly competent state bureaucracy.

*Creating New Jobs: Facilitating Part-Time and Other Non-conventional Types of Employment*

Part-time employment lets more people participate in a given production or service task. Therefore, labor market regulation should facilitate and/or stimulate it, at least voluntary part-time work.

*Creating New Jobs: Wage Increases  
in Line With Productivity Increases*

While some wages increase rapidly in South Eastern Europe because employers compete for skilled personnel, in many labor market segments wage increases remain way behind the average productivity increases. This applies in particular, but not only, to services where productivity cannot easily rise in a physical sense, like, for instance, in teaching, health care, public administration, or domestic services. Wages remain low there

- because abundant labor supply keeps them low, or
- because labor is not aggressively demanding pay rises, or
- because the public employer faces budget constraints.

The effect of average productivity growing consistently faster than average wages do may be that the domestic demand is lagging increasingly more behind the output potential. Foreign demand may close the gap, as the country is coming to export an ever larger share of its production. But as a rule, the labor market segments with relatively stagnating wages are not the ones that produce for foreign markets. Thus, increasing wages there would expand domestic demand without impairing export chances. Moreover, this would counteract the social polarization, which results from highly uneven wage development, raising at the same time real incomes of the neglected segments and reducing those of the privileged ones (because they face higher prices for domestic services, etc.).

*Making People More Employable  
by Improving Their Skills*

Public policy can facilitate formal, decently paying employment by:

- ensuring that every child and adolescent gets a good education (see the chapter on education);

- adjusting school curricula – to the possible extent – to the demands of the labor market;
- setting up appropriate schemes for professional education, accessible to all;
- setting up schemes for life-long learning, i.e. of recurrent skill upgrading and retraining.

Increasing the skill level of the population is a *no-regret policy*, even though it cannot make up for the lack of jobs by itself.

- The corresponding schemes create jobs by themselves because they employ teachers and trainers;
- An important result will be that the country becomes more attractive for investors;
- Universal good education is in itself an important means conducive to reducing social exclusion.

#### *Making Available Jobs More Accessible:*

##### *Offering Affordable Housing in “Boom Towns”*

The prolonged co-existence of labor scarcity in booming regions (mostly larger cities) with abundant labor supply in depressed regions is due in part to the high living costs in the boom regions that restrict internal migration. An appropriate policy response would be to supply affordable housing in the regions/ towns where manpower has become scarce. At the moment, this does not seem to be a likely priority for hard-pressed public budgets. But in the longer run it might be worthwhile to devise ways of pooling private and public resources to the purpose of providing low-cost housing.

In addition, an adequately staffed *inter-regional labor office* can be set up to guide job-seekers in the province into the available jobs elsewhere (like Germany has done in Eastern Turkey in the 1960<sup>s</sup> when the German industry was desperately looking for foreign workers).

#### *Increasing the Supply of Formal Jobs:*

##### *Enhancing Employment Flexibility (the Concept of “Flexicurity”)*

Employers hesitate to hire additional personnel, if they anticipate serious difficulties with

laying it off later on, when it could no longer be needed. Job protection, thus, can turn into an obstacle to employment creation. Employers tend to resort to all kinds of informal solutions (legal, half-legal, and illegal) to avoid the anticipated costs of formal down-sizing. They prefer flexible work contracts.

Workers prefer contracts that provide job security, most of all in a context of job scarcity where decently remunerated work is a certain privilege and where losing it carries the prospect of outright poverty. The notion of social inclusion implies precisely this basic security of “remaining included”. Labor market policy can aim to combine the flexibility employers appreciate with the security workers aspire for. This implies that labor market regulation focuses on income security rather than job security: while the employer has the flexibility to lay-off excess work force without much difficulty, the laid-off workers have the security of maintaining their income level. This is the essence of the concept of “flexicurity”.

How to get “flexicurity” in the context of labor abundance?

- by keeping people employable, training and retraining them in accordance with the needs of the labor market;
- by facilitating the transfer of labor from shrinking enterprises, sectors, and regions to expanding enterprises, sectors, and regions (see the sections above);
- by setting a relatively high ratio between the unemployment benefit and the last wage before redundancy, for just a few months at least.

The key to working “flexicurity” is a high chance of relatively rapid reemployment of those laid off, which might require a preference treatment for those recently laid off in comparison with other unemployed workers. The benefit will be a higher rate of employment altogether, as companies are more willing to hire personnel in conditions of uncertainty.

*Increasing the Supply of Formal Jobs:  
Reducing Taxes on Work, Financing  
Social Security Differently*

Other things being equal, employers provide more formal jobs, if the costs per formal working day or hour are relatively low in comparison with the costs of informal work. This condition would be helped by an arrangement, which eliminates employers' and employees' contributions to social security, replacing them by state contributions. This would imply a tax rise to finance the additional government expenditure. On the average, people would not be left with more disposable income. The transition would have to be compensated by a wage increase more or less equivalent to the former "social taxes". Thus, work would not immediately become cheaper. But the effect would still be:

- (a) that the changing needs for funding social security could no longer affect the costs of labor;
- (b) that not only formally employed people should be paying for social security, but basically all citizens should do so.

However, the advantage of severing the link between social security and labor costs comes at a price. The link between social security contributions and benefits would also become totally blurred, erasing any sense of earned ownership on the part of the beneficiaries. Moreover, budget constraints might convey a tendency towards benefit cuts, which could undermine social inclusion. A compromise could consist in a combination of:

- benefits financed directly out of the government budget, and
- benefits financed by contributions levied on all citizens, rather than just on the dependently employed ones (the hired workforce).

Candidates for the first type would be all kinds of flat-rate transfers, i.e. transfers that

are not related to the contributions paid by beneficiaries, such as a guaranteed minimum income, including a minimum old-age pension.

Candidates for the second type would be:

- top-up pensions;
- contributions to the mandatory health insurance schemes, which must not be allowed to fall below the true costs of good healthcare (see the chapter on healthcare above).

Unemployment benefits, which according to the "flexicurity" principle discussed above, should be at a level close to the last wage, could stay in the domain of employees/employers contributions, so that the link between risk and coverage will remain clear. But they could also become the responsibility of the central government, since the replacement ratio would be fixed by law.

## **Social Services**

### *Why are They a Priority for Social Inclusion?*

*Special social contingencies remain and require special care.* The above discussed pillars of an economically feasible social inclusion strategy for the countries of South Eastern Europe take care of the most serious *consequences* of insufficient income as well as – to some extent – the major *cause* of insufficient income. But social exclusion is not only a consequence of the lack of income that could be mended by a public-goods approach. Often it takes particular (and especially harsh) forms that are *not* mended by access to good healthcare and good education, but require rather special case-specific attention.

Three such personal emergencies stand out as particularly frequent and serious:

- children in distress, without help from a family;
- drug addiction;

- extreme poverty, lack of personal income coinciding with lack of any family support.

There are other types of emergencies originating from family problems, health problems, and lack of money. It is unnecessary to identify them, because we recommend social service structures that are orientated and susceptible to all kinds of personal needs. What is important is to emphasize that they need attention and that mending them must be part and parcel of any strategy of social inclusion.

But it is also important to stress that socially inclusive education and healthcare systems would considerably reduce the number of cases that need special social service attention. An appropriate strategy of social inclusion makes these cases a *residual category*.

#### *General Institutions to Identify Needs – Specific Institutions to Attend to Them*

Abandoned children need a different type of care than an old woman without a family who is unable to do her shopping, or a family left without any income because the mother is mentally ill and the father has disappeared. It is not our aim to offer satisfying answers to all the various issues that arise in connection with the variety of social problem cases. But we propose an institutional set-up into which specific attention should be embedded. This set-up should observe the following principles:

- a common institution as first stop for *all* kinds of social problems, as a general “relay or dispatch station”, from which “clients” will be channeled to the appropriate providers of specific assistance;
- an active search for problem cases, carried out by a staff of well-trained social workers;
- decentralization of delivery, centralized funding (in order to overcome the budget constraints of poor communities).

#### *Make Use of Private Commitment, but Maintain Public Control*

Care for disadvantaged people is one of the most important fields of private charity of all kinds. Much of this charity is organized by non-profit organizations and based on volunteer work. Poor governments should make use of this potential. It adds to the funding, the organizational capacity, and the professional expertise available for social services. There are various ways of combining private and public initiatives.

- The government funds private non-profit deliverers of social services, leaving the organizational set-up to them;
- The government buys the services of private deliverers, incorporating them into the public “master plan” of social assistance;
- The government leaves the field largely to private charity and confines itself to filling the gaps left by private service providers.

There is not a single way we recommend as the most appropriate. But we stress the *necessity that it is the government that sets and enforces the standards of good service delivery*. This does not exclude the fact that the existing governmental agencies themselves will learn from the experience of non-government deliverers. This would require an appropriate set up for the transfer of experience and continuous improvement. However, the ultimate responsibility for all those in need to receive adequate relief (the very essence of social inclusion) remains with the state.

#### *Making up for Insufficient Income: Guaranteed Minimum Income Schemes, Extended Public Goods Approaches, or Case-by-case Social Assistance?*

At the beginning of this policy paper, we justified the concentration on essential “public goods” (education, healthcare) by the huge discrepancy between needs and resources. We based our strategy proposal on the prem-



ise that the countries of South-Eastern European cannot raise enough public money to increase everybody's incomes by means of public top-up transfers to a level that permits a "decent" standard of living. In other words, we think that guaranteed minimum income schemes, which would lift everybody out of poverty, are highly unrealistic.

On the other hand, we cannot deny that the central problem of social exclusion is often the lack of cash to buy essentials (food, shelter) – even if health is taken care of. A strategy of social inclusion cannot neglect this dimension. There are three basic ways to deal with it under the present conditions in South Eastern Europe:

- A very low level of guaranteed minimum income (in line with public finances);
- Subsidized housing and food for the needy;
- Cash assistance in selected cases, should other means fail.

#### *Very Low Level of the Guaranteed Minimum Income: Much Money for Little Inclusion*

The main advantage of a guaranteed minimum income is its universality and applicability to all kinds of problem causes. But it has two serious disadvantages:

- Means-testing requires high administrative costs and easily becomes a source of distortions;
- In countries with wide-spread poverty, a universal entitlement uses up much of public finance. If the individual entitlement is reduced to the size, which the state can afford, it might become too little to make a real impact. Large-scale social exclusion might remain, even though many poor people get a little bit more money.

#### *Subsidized Housing and Food for the Needy: Yes, if Housing and Food Should be Major Problems*

Providing everybody with good healthcare and every child with a good education is es-

sential because these two items are of supreme importance for a person's life chances. Housing, food, and maybe other items for consumption (e.g. transport) can also be considered as essentials. But whether they should become the target of a priority-oriented strategy of social inclusion depends on an adequate needs assessment. If housing is a major problem for the poor, a well-targeted subsidized public housing scheme can make a difference. If housing is not the main worry (as the situation is in the country-side), public money should rather be allocated elsewhere. (See also the section on subcultures of social exclusion below). The same applies to food – be it in the form of public canteens, or US-style food stamps.

Subsidized supply of anything, which is not meant to become a universal entitlement, requires means-testing and the above mentioned disadvantages apply. This should also be taken into consideration when deciding about such schemes.

#### *Cash Assistance in Selected Cases: Probably Better Than Guaranteed Income Schemes*

Many people can prove that their money income falls below the poverty threshold. But not all of them are equally miserable. Some may live in a household together with others who also earn an income. Some may have an income in kind (farmers). Some may be supported by their kin. Some may have undeclared income sources.

But there are also people who have none of these and who do live in misery, maybe on the brink of starvation, and are really dependent on begging. These people may need care, advice, and love. But they also need money. And a strategy of social inclusion has to provide that money.

The first problem is: how to discern the people most in need from the rest of the population. The best approach might be the



social-worker approach, advocated above for social assistance in general. The next problem is: how to provide the money without opening the door to large-scale abuse, precisely because the entitlements are *not* universal and discretion is a central feature of this approach. Voluntary charity initiatives (preferably organized in networks) that cooperate with the public social workers might be part of the solution.

### *Special Attention to Emerging Subcultures of Social Exclusion*

*The profile of social exclusion in South-Eastern Europe is not shaped only by generalized deficiencies (the target of proactive universal policies) and individual biographic contingencies (the target of specific social services). It is increasingly being shaped by the emergence of self-reinforcing subcultures of poverty and exclusion. The most visible expressions of this phenomenon are slums. These subcultures need manifold social-services attention. But two policy directions are of particular importance. One refers to housing as a central aspect of the emergence of slums, the other one refers to the target group of children, who should be rescued by all possible means from the subculture of exclusion, from which adult people might no more be able to escape.*

Affordable housing and affordable utilities are key to the suppression of slums – in a proactive and curative way. Conceptually, the easiest way to provide these is through means-tested subsidies to the poor in the form of vouchers for the payment of rent and utilities. This can become a rather expensive solution, if the real estate market is left unchecked to the forces of (speculative) private demand and supply. Public supply can be the better solution. To this purpose, the authorities must secure land at reasonable prices for such public needs, as they should do anyway for the sake of urban planning in fast growing

agglomeration zones. If needed, laws would have to be changed to permit expropriation at controlled prices – as it is normal in many Western democracies.

With control of land, the authorities can construct low-cost houses for poor target groups, perhaps making use of the beneficiaries' own work input (examples exist in "third-world" countries and even in the UK). These low-cost public houses can be supplied with subsidized utilities. They can be kept so modest that their tenants have an incentive to move to better quarters, once they can financially afford it. Still, means-testing is probably unavoidable. Among other things, it would allow to vary rents in accordance with the tenants' income.

Rescuing children from their parents subculture remains a priority task for any social inclusion policy. Once they exist, these subcultures will most likely prove rather resilient to policy attempts at dissolving them and re-integrating their adult members into the mainstream of society. If children are left entirely under the influence of their families, they will run a high risk of remaining socially excluded for the rest of their life. Confronted with the choice between friendly permissiveness for slum dwellers and authoritative interference, the state should give priority to the rights and the life chances of these children.

A universal supply of good education with full-day schools and pre-school attendance will go a long way in detaching slum children from their negative home milieu. But such offers are often insufficient. Special social-worker attendance will be needed to induce and help parents or guardians to make use of the offers. As a last resort, school and pre-school attendance should be enforced – for the sake of the children.

***Priorities within the Strategy,  
Priority for the Strategy***

Any concrete policy package to fight social exclusion will be beset by countless problems. Many of them become visible only when we go into the details. Compromises between conflicting goals will be unavoidable. Many decisions will turn out to be mistaken and in need of correction.

But all this must not obscure the view of the direction to be taken. The top priorities we have proposed remain the top priorities even if on other fronts of the battle against social exclusion things are not quite so clear.

Social exclusion in South Eastern Europe will only be overcome within a relatively short period

of time, if politics and politicians attribute high priority to this objective, subordinating other objectives to it. This implies that the necessary resources have been made available and that the necessary steps have, in fact, been taken. Some of the steps must be truly bold steps that are out of tune with the current post-communist culture of public permissiveness. Laws must be changed if necessary. Without courageous political leadership ready to go beyond comfortable political “realism”, social inclusion – even within the limited meaning of universal access to “essentials” – will not be achieved in South Eastern Europe. It will turn into an eternal agenda, the subject of countless programs, countless conferences, and countless studies, benefiting the experts rather than the poor.

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