

Addressing Emergency: Welfare State Reform in South Eastern Europe

Authors

Alfred Pfaller, Dashimir Shehi, Salih Foco, Lyuben Tomev,
Vlado Puljiz, Ardian Jashari, Antonija Josifovska, Goran Vujović,
Irina Kausch, Milan Nikolić, Borut Rončević

C 02 - 00678



Regional Project Social Security and Employment in South-East-Europe
Friedrich Ebert Stiftung

Published by the Friedrich Ebert Stiftung, Regional Office Belgrad
December 2001

Scientific Editor: Dr. Irina Kausch, Berlin
Prepress and Cover Design: nStudio
Printed by: Tipografik Plus, Zemun
ISBN 86-83767-01-9



*This activity is funded by the German
Government within its contribution to the
Stability Pact for South Eastern Europe*

Preface

This publication is part of a wider and ongoing project of the Friedrich Ebert Foundation* on social security and employment in South-East-Europe which was started a year ago. This project proposes

- to identify and to analyse the major problems and challenges in the area of social and employment policies in the countries of the region
- to implement a programme of consultation and formation in crucial social policy areas, based on the experiences of the region
- to elaborate concepts and strategies of human resource development and to promote new policy approaches for the region in regional and international debates

The publication is the result of the first phase of the project which resulted in 11 case studies in all the Balkan countries (including studies about Serbia, Montenegro and Kosovo) and their comparative debates in three regional conferences during the course of 2001. The studies are supposed to offer an overview about the situation and the perspectives of the social dimension of the transition process, and debate the importance social security and employment have for the development strategies in the countries of the region. They analyse success and failures of transformation and reform projects in the social area, and identify the major challenges ahead.

The project emerged out of the experience and the day to day activities of the Foundation and its partners in all countries of the region, and our common concern for the democratic development and stability in South-East-Europe. We observe prolonged and increased levels of poverty and unemployment, social exclusion and misery of significant parts of the societies in the Balkan peninsula. We share the increased frustration in the societies about the poor results of the transformation process as compared with the expectations and hopes, and we are concerned about the impact this has, and will increasingly have, on the political stability of the region. We believe in the importance of the investment in the so-called social and human capital for the overall economic and political objectives, for a sustainable development and the successful integration into the European Union. And it is not a coincidence that the Friedrich Ebert Foundation, which has its roots in the traditions, the values and the spirit of social democracy, puts the concern for a more balanced development in the relation between social security and economic policies, and the commitment for the poor and underprivileged people in the centre of its attention and its activities.

* The Friedrich-Ebert-Stiftung is the oldest of the so-called political foundations in Germany. The Foundation supports democratic development and international cooperation through research, public debates, training and consultancies in Germany and about 100 countries all over the world. It was founded in 1925 as a political legacy of Germany's first democratically elected president, Friedrich Ebert. The Friedrich-Ebert-Stiftung is a political non-profit making, public-interest institution committed to the principles and basic values of social democracy.

Further information can be obtained via internet through <http://www-fes.gmd.de/> Further copies of this publication can be requested by e-mail to fes.bgd@fes.org.yu

The publication hopefully contributes to a better understanding of the region and to the search for adequate social and employment policies. The project of the Foundation will continue this effort, and all readers of this book are invited to participate in the ongoing activities. The co-operation of the experts from within the region and with those outside the region, the sharing of good (and bad) experiences of concrete policies and the debate with decision and opinion makers will be a necessary and important contribution to the mentioned objectives.

Many have contributed to this first phase of the project and to the publication who merit the thanks of the Foundation; however, it would not be wise to single out anybody. Thanks have to be given to the authors of this publication, first of all, to those involved in the editing and preparing of the publication, to the participants in the debates of the regional seminars in Sofia, Igalo and Zagreb, and to the colleagues in the offices of the Foundation in the region. Without your ongoing commitment and participation in the project and our joint effort this publication would not have been possible and the project will not continue. Thanks also to the German Government which financially supported the publication within its contribution to the Stability Pact for South-East-Europe, and to the Vienna-based Renner Institute for hosting the initial meeting of the authors of this book.

Michael Weichert

Coordinator

Regional Project Social Security and Employment in South-East-Europe

Friedrich Ebert Foundation

Contents

System Transformation and Social Protection	2
<i>Alfred Pfaller</i>	
Albania	8
<i>Dashimir Shehi</i>	
Bosnia and Herzegovina	20
<i>Salih Foco</i>	
Bulgaria	38
<i>Lyuben Tomev</i>	
Croatia	56
<i>Vlado Puljiz</i>	
Kosovo	76
<i>Ardian Jashari</i>	
Macedonia	94
<i>Antonija Josifovska</i>	
Montenegro	112
<i>Goran Vujović</i>	
Romania	136
<i>Irina Kausch</i>	
Serbia	162
<i>Milan Nikolić</i>	
Slovenia	180
<i>Borut Rončević</i>	
Addressing emergency: Welfare state reform in South Eastern Europe	216
<i>Alfred Pfaller</i>	

The centrally planned economies of the pre-1990 socialist world did not need formal welfare-state arrangements of social protection because “social welfare” was woven into the central processes of production, distribution and income generation. All productive resources, including human resources (i.e. labor of various skills), were mobilized by the planning agencies of the government to contribute to social production. In turn, participation in the production process entitled people to share in the consumption of the product – while they were still active producers and when they were no longer able to work, due to old age, illness, disability or child birth. The state-run economy produced what the planners considered as desirable for present individual and collective “consumption” (including military build-up) and for future economic growth. And it was the state planners who decided on the distribution of consumption rights – by determining money incomes and prices. Goods and services considered as essential were made available at very low prices or even for free. Education was accessible to everybody who qualified with regard to age, aptitude and to some extent political loyalty. Similarly, access to medical services was completely independent on individual purchasing power. Basic housing was provided for a token. Typically, the access to many social services like day care for children or recreation as well as to consumer goods was organized through the firm or institution people worked for. Firms could be generous in these respects because their financial capacity did not depend on the balance of production costs and sales revenues but on allotments by the government for the purpose of workers’ salaries and “welfare”. Part of the “social” task assigned to the firm was the employment of people to a large extent independently of productive needs. This way, unemployment was practically not allowed to materialize, everybody willing and able to work was kept in the job-related distribution system of individual and collective consumption rights.

With the transition to a market economy, consumption rights have to be earned in the market, subject to the price formation process determined by supply and demand, to the level of aggregate demand determined by the changing balance of savings and investment, and to the adjustment to shifting world market parameters. This has several immediate consequences for people’s standard of living and basic life chances:

- There is no guarantee that people who have no other productive asset but their ability to work will earn – for themselves and their dependents – an income that is somehow in touch with the nation’s per capita income. There is the real danger that at times they will not find a job at all or that the jobs available offer a salary very much below the national average.
- Those who are not able to work, can consume only to the extent they have accumulated or inherited wealth that yield rents or can be turned into cash. Or else they depend on income support by the larger community (the nation, the county, the town), the family or some charitable person or organization.

- Certain goods and services that are essential for human well-being, such as shelter and medical treatment, or that are decisive for life-time income chances, such as higher education, will not be available to those whose income cannot pay for the costs of those goods and services.

If there is the political will to secure for every citizen a standard of living that is not too far below the national average – which, in turn, depends on the productive capacity of the national economy – arrangements are required to correct ex post if needed the results of the market process and perhaps to intervene ex ante in the market process so as to make it produce as few “casualties” as possible. Without some sort of welfare state, significant segments of the population run a substantial risk of having to live in outright misery or even not to live long at all.

Under the central planning regime, most allocation of economic resources was subject to political decision-making (as opposed to decentralized decision-making by buyers and sellers in the market). Thus, the decision to avoid large-scale economic exclusion could be integrated easily, like any other collective goal (such as the quest of military might), into the overall economic planning process. In the market economy, most resources to be dedicated to collective goals have to be extracted from the “private sector”, even though state enterprises might generate some market income for the “caretaker of the collective will”. That is to say, political command, which ideally represents the will of the citizen’s majority, has to overrule individual spending (or saving) preferences. This political command can oblige citizens and residents to pay a certain part of their income directly as taxes to the government or as contributions to special funds such as a collective pension system or a health insurance.

We should note that the new method of securing collectively desired patterns of resource allocation (in our case: avoidance of exclusion) by means of taxing gives rise to a general problem. In the political arena, people might well support decisions in favor of welfare-state arrangements that protect them against poverty or outright misery in various contingencies of life. But at the same time they might resist and resent the necessary taxation. They might take to a free-rider position, trying to avoid taxes, but at the same time claiming the benefits of the system whenever the need arises. We should expect such free riding to become a generalized phenomenon, as the state is not readily perceived as the collective agency of the citizens for the citizens, but rather as an unloved disciplinary agent, suspect, in addition, of being wasteful or even corrupt. Moreover, the very practice of successful tax avoidance creates and reinforces a culture of “legitimate” cheating (with those who don’t being regarded as fools). Explicit taxation (rather than implicit resource allocation by central planners) also raises explicitly the issue of the distribution of the tax load. People might support the magnitude of tax-

financed government spending but resent the particular tax which is levied on their income, assets or consumption. One group of tax resisters and avoiders has the endorsement of an influential school of mainstream economists: business people. "Excessive" taxation of businesses is said to harm national prosperity on two grounds:

- It stifles entrepreneurial initiative, the very engine of wealth-creation, and
- it diminishes the national economy's competitiveness, making it more difficult (a) to sell national products in internationally contested markets and (b) to attract foreign investment.

Adding to all these factors the relatively low administrative capacity of the transformed state apparatus in transition countries, it becomes clear that there are economic limits to a welfare-state system of social protection even if the citizens of transformation countries and their elected representatives opt for it politically. We should expect a strong tension between the politically articulated desire for protection and the political system's ability to mobilize the necessary resources. In a way then, the choice of particular solutions to the various protection needs arising in the transition countries' new economic context ought to be a twofold exercise of maximization:

- Protection systems should be designed so as to immunize as large parts as possible against society's generalized resistance against taxes.
- Priority should be given to the most pressing needs for protection and for avoiding exclusion, leaving other purposes that are politically popular unattended. In other words, the limited ability to tax society (even for politically endorsed purposes) should be used in a way that maximizes the protection effect.

In addition to these twin objectives, attention has to be paid to economic constraints. Incentives of companies to invest and employ people, thus reducing the need for welfare-state income support, should not be impaired by the mode of taxation.

How are these principles put into practice? As to the first one, the maximization of available finance: wherever possible, a clear link should be established between a person's payment into the system and his/her entitlement to the system's benefits. This applies to people who

earn a taxable income in the market, most commonly – but not exclusively – as employees. For this group, the relation between payments and benefits is most readily established for old-age pensions and for income support during temporary unemployment, but it can be done as well for income support during times of illness. It would be a matter of establishing – public or adequately controlled private – insurance systems which offer the corresponding benefits in relation to the contributions paid. Contributors themselves have an incentive to pay in order to maintain their claims. However, cheaper ways to reap the benefits must be excluded. In order to avoid a taxation-of-labor effect, which would harm employment in times of labor abundance, it would be best contributions were paid not by employers, but exclusively by the prospective beneficiaries – as it is the case with an ordinary private insurance. However, employers might be instrumental in pooling risks and collecting contributions, thus reducing "dead-weight" transaction costs. A certain complication is posed by the continuing cash-flow needs of pay-as-you-go pension systems, on which the current generation of pensioners depend. This alone is a strong reason for compulsory membership, which, in turn, re-introduces to some extent the problem of tax resistance (especially if the benefits of the system are not valued highly in comparison with alternative ways of providing for old age).

Unfortunately, health insurance cannot be organized quite along the same lines. Defining benefits in relation to contributions would exclude those who earn too little to pay for the costs of adequate protection. If the restoration and maintenance of good health in accordance with the possibilities of medical art and technology is not to become a privilege of the well-to-do – which would be a gross violation of justice defined as absence of social exclusion – health insurance must charge contributions in relation to income while handing out benefits in relation to need. Such a system is immanently unattractive for those whose households have above average incomes per person because they have to subsidize with their relatively high contributions the health services for their poorer compatriots. For them private insurances with strictly cost-related contributions would be more advantageous. Therefore, opting out of the public system would have to be precluded for them. If the public system with its implicit redistribution in favor of lower incomes and of families constitutes the only available avenue to secure adequate medical treatment the members' (in extremis: the citizens') self-interest in paying their contribution should be expected to be relatively robust.

There are other parts of welfare-state protection for which no individual self-interest can be mobilized via appropriate financing methods. They include all sorts of income support – in cash and kind – for the poor who do not earn an adequate market income and who did not have the chance of making provisions in earlier times. In the highly developed welfare-states of the western industrialized world, this type of pure redistribution schemes have traditionally claimed only a small part (seven to ten percent) of the overall welfare-state bill. Lately, however, this percentage has been increasing. The reason is that the market economy has been producing more "casualties" than it used to in the hey-days of welfare capitalism. A larger part of the labor force has found itself unable to earn a decent wage income, either due to protracted unemployment (for which the first tier of unemployment insurance does no longer

provide) or due to very low wages for many jobs. In the transition countries, the problem of insufficient wage income during working-age has much larger proportions. For the transition shock has led to large-scale destruction of jobs, as protected former markets vanished and large parts of the production structure proved unable to survive in contested markets, or as companies, in order to survive, took to large-scale labor-shedding. On the other hand, in quite a few countries, the problem has not yet unfolded to its full magnitude because large state enterprises have continued their old labor-hoarding practice precisely in order to avoid even more unemployment. In this respect, remnants of the old socialist welfare-state system have been kept alive.

Income support for those unable to provide for themselves over the life-cycle cannot be financed by contributions the same way protection against the contingencies of life is. It must rely on taxes, to which the above mentioned limitations apply. The same holds, to a significant extent, for education. If it is – above a certain base level – not to become a privilege of the well-to-do it has to be financed by all citizens, those with children and those without. This, in turn, makes it a “natural” candidate for tax-based financing, even though the well-to-do could, in addition, be asked to pay for their share of education.

We have now, on the one hand, a part of the welfare-state package whose financing is relatively unproblematic because it corresponds to the logic of insurance. This part caters to those who cannot be considered “casualties” of the market economy, i.e. those who earn a “decent”, albeit modest, income in the market. On the other hand, we have – varying significantly from country to country – a need for relatively large sums of tax-financed redistribution, for both income support and public goods like education. And we have a situation of a state with relatively low taxation capacity. This combination of challenges and constraints would suggest the following strategy:

- Organize the insurance part, which caters to the protection needs of the employed and reasonably well remunerated part of the population (including their families), in a way that does not absorb precious – because highly limited – tax revenues. Establish a firm sense of “ownership” for the protection which is being bought by individual contributions. At the same time, implant the idea of social contributions as part of the wage rather than something granted in addition to the wage. Otherwise a conflict is programmed between social protection (which raises labor costs) and employment (which should be by far the most important source of income).
- Do not hand out public goods to those who can pay for them. This applies for instance to education. But make sure, at the same time, that those who cannot pay have equal access. Avoid a second-tier, lower-quality supply for the less well-to-do.

- Preclude the possibility that the well-to-do opt out of the public health system. Keep their entitlement to medical treatment attached as much as possible to the payment of implicit subsidies in the public health insurance system.
- Give priority in redistributive tax spending to those items which imply the biggest effect in lifting poor citizen’s and their children’s standard of living. This implies a concentration of public spending on “essential” goods and services rather than on money income. High-standard health services (preferentially paid for to a high degree by contributions) and education should be considered non-negotiables. Low-cost housing and subsidized food supply could come next in line, if government money is scarce.

Albania

Dashimir Shehi
Centre for Economic and Social Studies (CESS)
Tirana

October 2000

1	The development of the social situation in the last ten years	9
2	The state of the art of the Albanian social system	10
2.1	Social assistance	10
2.2	Social insurances.....	11
2.3	Public social services	12
2.4	Socially engaged non governmental organisations (NGO)	14
3	Conclusions and recommendations.....	16

1 The development of the social situation in the last ten years

The changes that have taken place over the last ten years in Albania, have not only introduced new political and economic situations, but have also generated new social situations. While the changes in politics and the economy have already formed the frameworks within which political trends, political pluralism and a market economy move, this cannot be said to have happened with respect to the social problems as well. The last ten years have been characterised by known **great social changes**, but also by ones not previously recognised. Groups in need and jeopardy are even more divided and problematical social concerns have grown more diverse from those Albanian society could cope with under the previous totalitarian system. Narrow-mindedness, a lack of professional abilities and in consequence indifference towards the wide social concerns which the society is indeed encountering, are negative inheritances, which explain to a certain point the lack of a long-term strategy for treating social problems.

In the past system, the goal of the service was to assure the safety and health for people in need. This goal is clearly seen in the way the social services were arranged, as closed institutions where the service aimed mainly at the offering of a plate of soup and health care, instead of offering education. This type of service exacerbates the difficult social situation making it a co-accompanier of the individual all life long. And the circle of negative consequences becomes wider. The care for these individuals grows to unjustifiable, difficult levels for the institution staff. In fact, the goal of the social service should encourage the person in need to regain his ability to assure all his needs through personal working activity. In other words, social assistance must avoid fuelling the grave social situation, to give the right impulses and motivate the efforts of the individual to overcome the situation to encourage his re-activation in order that he does not feel excluded from the society.

With the deep political changes that happened at the end of the 90-s, there were also economic changes that accompanied the **emergence of new social phenomena**. Privatisation was the first big step, accompanied by a series of social problems, which costs were heavy. Under the conditions of the transition from state-owned to private property, with the bankruptcy and closure of inefficient enterprises, with the dissolution of industrial complexes into smaller productive units more flexible in a market economy, with the opening of state borders and the application of an open policy with other countries, there was created an army of unemployed who had to be treated from a social point of view. This group of people was a new group at much greater social risk. Actually in Albania, there are 150 families that receive social assistance; official unemployment is in the region of 18 %; more than 600 thousand people have emigrated to neighbouring countries (Greece, Italy) and migration has displaced in a totally-uncontrolled way over 500 thousand people.

The opening to the world and establishment of contacts with it, created favourable conditions for new groups at risk such as drug-addicts, violated women, abandoned children, etc. At the same time it must be stated that the previous groups in need still require assistance, and their numbers are rapidly increasing.

It seems paradoxical but within ten years, the number of handicapped individuals is ten times higher. In 1989 there were approximately 4,790 handicapped people. Today, a total of 43,456

individuals receive disability payments. This increase is mainly due to a change in thinking with regard to the treatment of such individuals. Once, it was considered a shame to show to society a handicapped child, families thus hiding a considerable number of such individuals. Today this mentality has been overcome as a result of the social treatment of this category by foreign NGO's acting in Albania, but also thanks to some state policies regarding their financial treatment. The number of orphan children treated in public institutions up to 1990 was 1,026 and taken together with those children with one parent gave a total of 3,278 children. Today, in Albania there are 15,000 social and biological orphan children. This increase is related to the new phenomena of emigration and divorce, which have created conditions for abandoning the children. According to officially accepted statistics there are around 38,000 drug addicts in Albania today, among whom 10,000 are in Tirana.

As can be seen, the scope of social problems is very wide. This panorama is also loaded with the threat of these problems transforming into a **social crisis**, which might bring serious consequences to the society. According to world experiences, in such situations, social policies become a sensitive priority. They must aim at the change of the function of the social system, in other words the change of the relations between institutions and the individuals, who comprise this system.

Albania lacks an **institution to draft social policies** in accordance with the real needs and changes within society. As a result, the improvement of institutions that accomplish such policies including social care, is happening without any medium or long-term strategy. Social policies are realised through social programmes, which political forces in power realise in accordance with their point of view. But in order to have effective social policies that are less affected by the rotation of political forces, the formation of a non-governmental institution which would realise the drafting of social policies on the basis of continuous knowledge of the social and economic groups in need is an indispensable priority. Within social policy, the assurance of social service can not completely resolve the numerous problems the individual may encounter, but in terms of an open democratic society, (moreover under the conditions of a very poor society such as Albania) these services assume a priority role.

2 The state of the art of the Albanian social system

There are large numbers at risk in Albania. As a consequence of the grave economic situation, families in need of state assistance are more numerous than those actually being treated. The level of poverty, though it has not yet been calculated and announced officially, seems to be giving a large number of families minimal possibilities for self-survival.

2.1 Social assistance

In the midst of a high unemployment rate and low level of economic activity, social assistance and payment of unemployment represent the most **important social policy instruments** for the groups in need. With each passing year, the expenses concerned with social assistance have increased considerably. In 1993, when the "Law for Social Assistance and Payment of Unemployment" was adopted aiming at protecting the poor social groups, the expenses for the

social assistance totalled 2159 million leks annually; in 1994 the total was 3723 million leks and in 1999, expenses reached a total of 6700 million. But it must be stressed that such a considerable increase in social assistance has occurred under conditions of inflation. Social assistance in comparative prices reached the highest level in 1994 - 1995. Despite the high increases over the two last years, its high effective level of these years has not been attained. In 1999, social assistance composed only 1.2 % of GDP compared to 2 % it held in 1994. Likewise, the percentage of expenses for social assistance in the state budget has decreased from 6,1 % in 1994 to approximately 4 % in 1999.

Not having a social strategy for the poor strata (it has to be confessed that there has been no research to discover the proportions, the level and the expansion of families in need and the eventualities in the coming years), social assistance even in its indexes has been abused on a large scale. Around 25 % of the families on social assistance in the country have been in this system continuously since 1993, which is absolutely unacceptable by the analysis of domestic and foreign specialists. This means that the **abuse of social assistance** is great and the capabilities to correct it are small.

The **lack of clear social policy** with respect to the poor groups in need, divided in urban and rural areas, or divided according to regional opportunities for development and zones with little capacity for regional development, has created an unclear situation. Though the expenses for social assistance have decreased in proportion to GDP, the amount of 6,1 billion leks is not small. But seen realistically, this amount is insufficient to meet the most minimal needs of those families which are indeed in need.

The privatisation of large economic entities has created unemployment as an immediate visible consequence, extending the boundaries of the groups at risk. Payment of unemployment as a social policy instrument in protection of this group is one of the most tangible and most indispensable policies in capitalist societies. In Albania, the expenses for the payment of unemployment have decreased bearing in mind even the low intensity of the privatisation of big economic entities. If we would consider it a saving, this decrease in unemployment payment has not led to an increase of other protective social policies. In 1993, the expenses for social assistance and unemployment payment together were 12.7 percent of budgetary expenses, while in 1999 they formed only 5.2 percent.

2.2 Social insurances

Social insurance is one of the elements of social protection inherited from the previous system. Alongside the great economic, social and political changes, the system of social insurance went through changes, which when conceived and realised brought about consequences in the economic situation of different groups of pensioners.

There are 500,000 pensioners in Albania within the system of social insurance. The minimal pension is 2800 leks monthly while the maximum is 9600 leks monthly. As it can be seen the level of pensions is much lower than the needs of the citizen to make a living. Within the total number of pensioners 280,000 pensions come from the agricultural sector, where the minimal and maximum pensions have limits from 1800 - 2500 leks monthly. This is too a very low

figure. Currently, the number of insured persons for each pensioner is 1:1. This decrease is compensated by an increase in contributions and with limited levels of the pensions.

Nevertheless, it has to be said that the system of social insurance is among the most complete systems of social protection in Albania, because it involves a wide range of activities. Today, the state pensions system covers the following types of pensions:

- **Old age pensions** (including full and partial old age pensions and experience terms of service),
- **Invalidity pensions** (including those invalids due to sickness, from accidents at work, and a special protection for the military servant),
- **Family pensions** (including pensions for general diseases, for the families of the martyrs of the National Liberation War and military officers giving their life on duty, from accidents at work, special pensions),
- **Pensions for special merits** and
- **Rewards** for the veterans of the National Liberation war.

Put into percentages, the old age pensions make up 76 % of all pensions, while invalidity pensions make up 8 %, family pensions 15 %, rewards for war veterans 2 % and the pensions for special merits 0 %.

At the moment, there are no records for paid contributions and the actual pension contract is ill-defined. Thus, instead of solutions to these problems is being made by social insurance there are courts that have to resolve these matters, hence creating unnecessary conflicts between the citizen and the insuring institution.

In the field of social insurance there is a lack of studies regarding the critical development of poverty, a lack of policies for insurances in agriculture, a lack of strategy for the management of reserve funds, and a lack of strategy for the redistribution of social insurance pursuant to the differences in roles and problems, etc. These entire shortcomings are as a consequence of the **lack of a middle and long-term strategy** in the field of social insurances. Under such circumstances, it is more than indispensable that in the field of social insurance there is drafted a new strategy and a paving of the way towards a new law that would define this important element of social insurance. This will pave the way to a new scheme of supplementary pensions and a voluntary pensions scheme. Therefore citizens would no longer be obliged to support himself only through the state pension scheme, but would be provided the opportunity to receive other additional pensions. On the other hand, the state would be relieved from obligations for pensions it covers on its own by thus creating more favourable spaces for the increase of pensions it treats, by satisfying the needs of the citizens.

2.3 Public social services

Social Services in Albania are divided into two big groups: (1) public services and (2) non-state services (see 2.4).

The actual public institutions that offer social services, in structure and type, are similar to those inherited from the previous system. 90 % of buildings and 47.2 % of personnel are inherited from the past. Even the groups in need that profit from these types of services are the same, though they have grown in number a lot. Today, there is offered classical residential service for these **groups in need**:

- elderly people,
- orphan children
- persons with limited abilities.

As institutional dependency, the public institutions until 1993 have been dependent on the Ministry of Health, the Ministry of Education and the Centres for the development of retarded and handicapped people. With the creation of the Ministry of Labour and Social Problems, the institutions that offered services for elderly people, for orphan children and handicapped people (excluding the institutions that offer educational integration such as schools for retarded children, institute for blind people, dumb and tongue-tied children, etc) fell under the dependency of this Ministry. In 1996 the General Administration of Social Assistance and Services was created and all these institutions fell under its straightforward dependency.

Given the fact that large part of the institutions from the structural and their organisational point of view have been inherited from the previous system, the quality of services is based on: the methods of treatment of the client as an assailant and on a staff, the greatest number of whom have been inherited but are unqualified. Although the costs are too high compared to the real financial situation in the country, it is still not sufficient to meet the conditions for the normal living of the clients. Seen in relation to counterpart institutions in countries such as the Czech Republic, Slovakia, Ireland, Germany, Norway, etc., the **social services** that are offered by the public institutions in Albania **are characterised by**:

- a) residential service, as a service that covers 88 percent of all services in Albania.
- b) daily service, which covers 12 percent and is extended only in the service for retarded or handicapped children.
- c) by a lack of experience in treating the persons (clients).
- d) by the low cost of financial treatment in these institutions.
- e) by a low participation of financial contribution by the actual patients.
- f) by a low participation of the community in these services.
- g) by the lack of qualified civil servants. The personnel working for the public institutions mainly have an irrelevant education such as agronomy, zootechnics, veterinary science, economics, military or medical education. Only 1 % are qualified social workers.

The residential service being the only one that is offered by public institutions, does not cover the minimal needs for these types of services because it treats a very limited number of persons in need. Statistics say that the needs to be met by these centres are almost ten times higher. Their geographical extension is very limited, covering only 8 towns. The information on the activity of these centres is almost unavailable in rural areas.

Within conditions of great poverty and very low capacities of family budgets to treat the people in need, in Albania, contrary to other countries, there is a **very high demand** from citizens to be admitted to these institutions. The demands to be treated in public institutions (orphanages, houses for elderly people, centres for the development of handicapped people, etc) are sent to the General Administration of Social Assistance and Services. This institution sets up a commission for each type of service, which accepts the demands by individuals in need. In each of the meetings of these commissions there are taken into consideration 20-30 demands and only 3-5 are approved. It must be said that these meetings are held only once a month. Therefore, the number of the individuals that need to be treated in these institutions is much higher than the real capacities of the institutions.

The admittance of individuals in need to the public institutions is only after lengthy **bureaucracy**. Decision no. 510 of the Council of Ministers details a long list of documents which the citizen finds difficult to obtain, especially when he happens to be in far remote rural areas. The **centralisation of the admittance procedure** of the institutions of social care brings chaos and a lack of efficiency to this type of service, which is proved by the fact that in some of these centres there are vacant places, at a time when demand for them is high. The amendment of the Legislation currently in force remains indispensable in drafting a new strategy. For instance, Decision no. 519 of the Council of Ministers stipulates that orphan children are admitted to orphanages until 14 years of age, thus breaching the UN Convention for Children, which considers every individual a child until 18 years of age. Likewise this decision that specifies the criteria for admittance to the institution, fails to indicate the time of the establishment of the individual in the centers of social development, thus leaving the way open for these individuals to become perpetual clients and hence separating relations with their families and friends.

2.4 Socially engaged non governmental organisations (NGO)

In Albania, it is hard to ascertain an accurate figure of the NGO's that act in the field of social services, caused by the lack of a law that regulates their relations with the state. From research, it appears that there exists a considerable number of "ghost" organisations. From information received from the courts, it may be noted that although registered as organisations conducting social services, a considerable part of these registered NGO are not operable. Some of them have never been operable and have closed down. A few have changed their location and contact persons, hence they may be found only by accident, while some other NGO's have refused to provide any evidence on the activity they conduct. All this indicates shortage of information but also the indispensability of regulating as soon as possible **the relationship between the state and the NGO's** as well as the relationship within the NGO's themselves.

It has to be said that there are many NGO's, which though registered in the court of a specific town, conduct their activity in another town. This indicates that the referral as a source of information for finding a NGO's activity in court is not accurate. E.g., Shkodra has a total of 63 NGO's registered in court that are supposed to operate in the field of social services, but only 15 of them do actually run any activity. Tirana has a total of 189 registered NGO's, but only 37 of them run any activity, of whom only 25 agreed to be interviewed. And Durres has a

total of 27 NGO's registered in court, but only 9 of them run any activity, and only 7 of the latter agreed to be interviewed. Vlora has a total of 25 registered NGO's but only 7 of them run any activity.

Albanian NGO's offer various types of social services, including residential services, and in contrast to public institutions also community services that may be specified as daily service, counseling in the family, social integration, health treatment, etc. Differently from public institutions, the NGO's offer a much wider range of services and a higher effectiveness, which is reflected in the large number of the people that profit from them. Social services offered by NGO's share the **following priorities**:

- They offer the citizen the chance to find the needed service in conformity with his social, economic and physical situation, without leaving his friends and family as well as the opportunity to change the type of service to suit his condition.
- They have created a wide range of services that have been unrecognised until lately, which have affected the change in thinking of society with regard to the treatment of groups in need.
- They make things easier for the citizens in the procedures of admittance to their institutions.

NGO's offer social service for wider vulnerable categories, e.g. orphan and street children, retarded or physically-handicapped children, retarded persons above 18 years of age, violated women, women who are heads of the family, sick people and individuals in temporary need (who may need psycho-social support, temporary social assistance, training etc.). Procedures of admittance to social services offered by the NGO's are more open and swifter. There are simple ways to these procedures. Admittance practices are free and far removed from the red tape practices the individual encounters when dealing with public institutions. The NGO itself runs studies in the zone it is acting in to find individuals who are in need of its services.

Generally, the distribution of social services by NGO's is run through **projects**, which follow each other. This depends on the objectives of the project, by the number of the profiting individuals and the type of activity that is run in these services. With regard to management, a board heads the social services offered by the NGO. We may **classify three NGO groups** acting in the field of social services in Albania:

- The first group includes those NGO's that act in cooperation with foreign NGO's. It is to be noted that most of the NGO's that act in Albania in the field of social services are foreign, and hence it is understandable that a part of them cooperate with Albanian partners. Thus, the "Albanian Youth Council", "Women, Realities, Visions", "Rural Women", etc, are Albanian NGO's which have foreign partners who co-fund the social services they offer. From this cooperation, the Albanian NGO's learn and get experience not only in the field of social services but also in the way of management of the activity.
- The second group includes those NGO's that are totally foreign, that are organised and managed by foreigners (this is noted from the answers to the poll) but who have Albanian coordinators on their boards.

- The third group includes Albanian NGO's but it has to be stressed that even in these NGO's the greatest part of their funds come from abroad.

Though the NGO's promise to cooperate with local authorities, the latter are not able to monitor their activities, as they have no resources to this end. Some of the NGO's have contracts with the Ministry of Labor and Social Problems, and therefore it must be this Ministry that monitors their activity. Certainly this does not mean control, but the **monitoring** of the obligations the NGO's have undertaken in treating the individuals in need under Albanian law. But in matter of fact not even the Ministry of Labor and Social Problems is capable of performing this monitoring due to a lack of resources too. Likewise, there is no act that obliges the General Administration of Social Assistance and Services to run such an activity. The General Administration of Social Assistance and Services may recognise and monitor only those activities run by NGO's that are directly related to it. Therefore, the General Administration of Social Assistance and Services, though it may monitor the NGO's activities in the field of social services, does not possess reliable information to undertake such acts. Neither is it supported by legal provision to do so.

3 Conclusions and recommendations

To reach a new situation in the field of social protection, it is indispensable to evaluate the actual needs in this field. Seen in a wide context these **needs** may be specified as follows:

- A necessity for **complete knowledge of the real situation** of groups in need in the entire country. The lack of records for the real number of the population, for the number of emigrants, for the number of families and divorces, does not allow for accurate information in recognizing the groups in need and their geographical extension. Specialised and profile studies for ascertaining the real situation of special groups in need are indispensable for state institutions involved in policy-making. Specialised institutions in this field may realise these studies.
- A necessity for a complete **revision of the legislation** in the field of social protection. The Law for Social Assistance has undergone partial amendments, since 1993 when it was approved, which have made its comprehension and application more difficult. Nevertheless, its content leaves too little space for social services. While the Law for the NGO's activity has not been approved yet.
- A necessity for **more complete information** on the social services in the country. The lack of this information is more prevalent in rural areas. This information is mainly gathered by the media in a non-professional way. E.g., only 13 percent of those interviewed in the rural area of Shkodra were aware of the types of social services (public and NGO's) that were available in the city of Shkodra.
- A necessity for a current **qualification** for those treating vulnerable groups. The staff involved in social problems and in general in social services needs such a qualification.
- A necessity for the **creation of group strategies**. In fact, no short-term strategies exist in any vulnerable group, let alone long-term strategies. Spontaneity in the social policies applied in Albania is striking. If an important issue arises, it is usually demanded that a

partial change or addition to the law is made or a decision taken from the council of Ministers aimed at providing an immediate solution, with little thought that these amendments may run contrary to the established law or to the current situation in society. Quite often these changes are imposed by force from some protesting group. If for example, disabled people as one of the vulnerable groups get organised and demand a law that protects them financially and such a request is put forward even through violent means, then such a law is approved. This is in fact what has happened. This approval, done in such a way is not based on some preliminary study or on some element of state strategy for disabled people. Thus the approval of this law runs contrary to another law approved previously, such as for instance the Law of Social Assistance.

Therefore, it is indispensable to **create a new strategy** in the social field. The creation of such a new strategy demands cooperation between:

- the state and state institutions,
- NGO's
- community,
- foreign donors.

The **role of the state** in approving contemporary social policies is first considered in:

- The sense that social policy is an integral part of the economic development of the country and related directly to the projects for improving poverty.
- All the elements of economic reform, such as privatisation, a new fiscal system, investment in infrastructure, etc., must have as their priority the social effects that are generated from these reforms.
- Increase in financial capacity of the policies in the social field.
- Improvement of legislation in accordance with the requests of the European Legislation and International Conventions.
- The creation of a network for the qualification of the servants of state administration dealing with social problems.
- Creation of legal frameworks for the activation of the NGO's and the private sector in social services.
- The support of the community in preventing aggravated social situations.
- Creation of more spaces for local authorities giving them the necessary judicial, administrative and financial competencies for treating social problems.

The **civil society** in Albania, through its numerous non-governmental organisations and based on the principle of voluntarism, succeeds in offering a wide range of social services. NGO's have gained new experience in enlarging social services. This is the fundamental element that has influenced directly the change in the general social and political mentality with regard to social services. They have created a network of services thus becoming the main complementary element to state public services. But their weak relations with the state must be regulated

promptly in order to avoid waste of financial and human resources, to avoid unnecessary over-placements, and to guarantee the effectiveness of these services.

There are several ways of cooperation:

First, there is the possibility that the state funds NGO's that offer social services, where the latter are realised according to state demands and the standard systems decided by it. In such a case, the state has the right of control over the funds it has delivered. This type of cooperation in our position is neither economical nor recommendable, because the state cannot fund social services realised by NGO's.

Secondly, it is possible that the state funds direct expenditure in offering services to the citizens who have no economic possibilities. In this case, the state does not cover categorically the expenses covering the NGO administration or their premises. In principle, the NGO must cover its own expenses of such a nature, while the state covers only the cost of service. This means that the individual needing a social service documents his necessity for this service and his inability to afford the cost of this service. In this case, the state guarantees the funds for the individual while the NGO covers the cost of the service. This scenario may be considered in the future as a possibility of cooperation under our conditions.

Thirdly, the eventuality of an agreement between the state and NGO's for conducting social services. In this case, the state decides upon the cost and the standard of services and funds it. Usually, such agreements in various countries, such as for example in Germany, the Czech Republic, etc., have been made with big organisations such as Caritas, the Red Cross, the League of Catholic Associations, which offer social services. Such powerful organisations have their value in Albania too; for example, the Catholic organisations in the north of the country have already created a basis of credibility for the treatment of social services in this zone.

At any rate, it must be emphasised that without a national strategy for social services, without recognition of the real needs of these services, it is difficult to think of cooperation of such a nature. It is pressing to create qualified institutions to represent the necessary changes in social policies and to make relevant recommendations.

The **role of the community** is very important in drafting the new strategy. An increase of awareness is of special importance in order to enhance social policy implementation and judgement. The market economy has greatly increased individualism, which for Albanian society means indifference. The indifference to the treatment of the social problems in the country has also served as a barrier to the inflexibility of social mentality. NGO's activities have greatly influenced the increase of public awareness towards social problems and the influence of these activities has been represented by the media too. NGO's have also contributed in fostering a new mentality in the community.

The legislative and institutional changes in the last ten years in the social field have led to changes in state policies. Changes (though not complete) in legislation for the treatment of disabled people have been based on the NGO's activities, and on the increase of public awareness, especially as to the problem of handicapped children; their social treatment is dif-

ferent from previous practices, which was totally based on health care. This brought changes in the legislation and moved dependence of the institutions that treated this group from the Ministry of Health to the Ministry of Labor and Social Problems.

The **creation of new types of social services** in the field of the protection of women and the family, especially from violence, the creation of centers for abused women and girls (this topic used to be taboo in the past), has brought a serious increase of public awareness which for its part has dictated further changes in the pertinent legislation (improvement of the Family Code) and led to the creation of new structures, such as the Committee for Women and the Family, etc.

The **organisation of a network** in the field of social protection and continuous awareness of the public regarding the groups in need, not only for their rights but also for the improvement they have undergone for a reintegration into society, remains an important objective of work with the community.

Foreign donors and the Albanian state have invested million of dollars in the field of social services. What has been achieved? Little. Less than necessary. Thus, the conclusion is that in Albania due to the continuous changes of specialists in the state administration, the necessity emerges for the creation of a specialised non-governmental institution for drafting a social policy, with the right and duty of the government to approve it according to the social programmes it upholds. It is impossible to form a social state without elaborated social policies.

Note: All figures are received from the Ministry of Labour and Social Problems.

Bosnia and Herzegovina

Professor Dr. Salih Foco
Faculty of Philosophy
Sarajevo

December 2000

The political and economic status of Bosnia and Herzegovina.....	21
1 The development of the social situation in the last ten years	23
1.1 The social status of the population	23
1.2 Expelled population and refugees and their social situation.....	27
1.3 Problems concerning employment, education, the labour market and employment policy	29
2 Steps toward social security reform.....	31
2.1 Pension and disability insurance.....	31
2.2 Health care	32
3 Transition in Bosnia and the prevalence of political and economic difficulties	32
3.1 Slow privatisation and economic reconstruction	34
3.2 Over-institutionalisation	36

The political and economic status of Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) was a part of the former Yugoslavia as an independent Republic, with a constitutional and functional status equal to that of any other federal unit. It established its autonomy and **independence** through a referendum administered on March 1, 1992. That same year, on April 6, 1992, Bosnia and Herzegovina was recognised internationally and universally as a sovereign, independent and territorially integrated state within its historical borders, and as a member of the United Nations.

Geographically, Bosnia is a European country. It is situated in the south-eastern part of the European Continent and in the north-western part of the Balkan Peninsula, at the crossroads of the Mediterranean, East European and North-western territories. It is a country rich with a diversity of geographical, climatic, cultural and historical impacts, which in turn have contributed to a variety of historical and cultural peculiarities. With its borders with the Republic of Croatia, Bosnia is both northern and western country. To the east and south, it borders with Yugoslavia, meaning the Republic of Serbia and Montenegro. Bosnia and Herzegovina has its natural borders stretching along rivers and blending in the adjacent mountains. As such, the state borders had already been established in the past ¹.

As per the 1991 census, the **population** of Bosnia and Herzegovina was 4,427,000 citizens. In terms of an ethnic structure, of that number 17.3 % were Croats, 31.2 % were Serbs, 43.4 % were Moslems (Bosniaks) and 8.1 %² were others. According to the incomplete data, or as per the round figures provided by the BiH Agency for Statistics, there were around 3,724,582 citizens in Bosnia and Herzegovina in the year 2000. Of that number, 1,448,537 live in the Republika Srpska and 2,276,245 in the Federation of Bosnia and Herzegovina. No breakdown is yet available to depict the present ethnic structure of the population³. The presented figures, although incomplete, show a loss of over 700,000 citizens. The consequences are not only the loss of population (they were either killed, held missing, displaced or died by natural death etc.).⁴ But also a huge number of displaced persons within the country and those with refugee status in foreign countries. This also follows on from the data pertaining to the number of the population in the two Entities ⁵.

The process of acquiring independence for Bosnia was accompanied by a strong resistance primarily by the forces in Serbia and some internal elements within Bosnia and Herzegovina.

1 On geographical, demographic and cultural facts of Bosnia and Herzegovina, see Bosnia and Herzegovina, the most important geographical, demographic, historical, cultural and political facts, by Muhamed Filipovic. Publisher Compact, Sarajevo 1997

2 See Statistical Annual Book RBiH, 1992

3 According to some assessment, by the end of 1999, there were 1 698 760 Bosniaks, 504 711 Croats, 72 762 Serbs and 21 541 Others, in the BiH Federation. There is no assessment as to the minorities in the RS. According to some assessments, their number is very small, almost negligible.

4 A precise death toll or an accurate number of those held missing as a consequence of the war is not available yet. Instead, there are still varying estimates, ranging from 120,000 to 250,000, depending on the source and purpose of information

5 Statistical Bulletin. Institute for Statistics of BiH, number 5, 1999

This resistance grew into a difficult and **long-lasting war** which ended with the signing of the Dayton Accords in late 1995. The Dayton Accords restructured the constitutional and political order within Bosnia. Bosnia and Herzegovina is regulated as a state without a prior definition of what type the state is – in terms of terminological meaning of the word “Republic” or “Federation”. Its nominal definition is “Bosnia and Herzegovina”. Its internal organisation was established in such a way that the state of Bosnia and Herzegovina consists administratively of the two Entities: The Federation of Bosnia and Herzegovina and the Republika Srpska and a special territory known as the Brčko District.

The **Dayton Accords** established a constitutional order, which defines the responsibilities of BiH, its Entities and all other bodies. In view of the fact that the war, which lasted from early 1992 until the end of 1995, left behind some critical, still pending controversies and causes, the signing of the Peace Agreement did not lead to an end of the disputes which had emerged and existed in the course of the war nor to the end of the serious atrocities. The Dayton Agreement regulated many issues and attempted to annul the aftermath of the war (ethnic cleansing, evictions, occupation and atrocities) through new legislation. The peace implementation involved numerous troops and institutions of the International Community. It was first and foremost NATO in charge of providing military security; OSCE with its role in the democratisation of society, its preparation and administration of elections as a presupposition for establishing the new representatives of authority and administration of the country as being legitimate; the United Nations in exercising its control over police structures; and many other international forces, institutions and organisations.

The Dayton Agreement also established the role of the **High Representative for Bosnia and Herzegovina** as a neutral person invested with certain responsibilities and powers. Notwithstanding a huge international engagement in military, police and financial sectors in the wake of the signing of the Dayton Agreement, the process of normalisation of life and thereby the overall circumstances in the country has been slow, producing unbalanced success. The process of return of the people expelled from their original homes and properties is continuing only at a slow rate; as is the process of reconciliation and normalisation of security and economic conditions. The dysfunctional administration, which continues to be a reflection of those political forces which generated the war and have subsequently failed to demonstrate a sufficient degree of willingness to implement peace, contributes to this reality.

Although elections have been held on a number of occasions in post-war Bosnia and with authorities established according to the election results, the **outcome of changes** cannot yet guarantee the democratisation of the entire political life in Bosnia or the possibility of the new forces in establishing a situation inclined toward real peace, democratic relations, respect for property rights, ethnic equality and tolerance. This situation is still in effect and any changes were prevented by the situation prevailing in Croatia during the rule of the HDZ and Franjo Tuđman and by the policy pursued in Serbia and ex-Yugoslavia under the aegis of Slobodan Milošević. Peace destabilisation and the obstruction of the implementation of the Dayton Agreement were the backbone of the political agendas of the neighbouring countries which had engendered the war and continued to destabilise peace in Bosnia, although they had guaranteed and signed the Peace Agreement.

With the advent of new political forces in Croatia and Yugoslavia and the forthcoming **general elections** scheduled to take place in early November 2000 in Bosnia, the conditions will be created for the normalisation of the political situation, for constitutional organisation, territorial integrity and the functioning of Bosnia and Herzegovina as an independent state; they will make the authorities and political forces responsible for the situation and the relations towards both the citizens and the neighbouring countries.

The normalisation of relations with neighbouring countries is not only a territorial and security issue but also a socio-economic one. **Economic stability** as a prerequisite for the normalisation of the social status of the population (which is at present extremely poor or more precisely at the lowest point of social tolerance) is dependent on the establishment of normal inter-state relations. In light of the fact that the economy and the entire infrastructure of the country were linked to the countries of the former common state, it would be natural for economic links to be congruent with the existing presuppositions, the necessity of mutual links and the possibility of production etc.

The process of transformation which affects all those countries of the former socialist model of authority is called **transition**. In Bosnia and Herzegovina that process of introducing change is **much more complex** and contains the elements of the **peace implementation** and the **abolishment of the results of war** (ethnic cleansing, deprivation of human rights, or the causes of the war, to put it short). In other words, in addition to what seems common for all the countries in transition, Bosnia is faced with a simultaneous establishment of normal relations with its neighbours and a radically new internal organisation in accordance with the intentions and basic prospects envisaged by the Peace Agreement. This is the reason why the term ‘transition’ implies change in the spheres of social relations, the legislative, political and economic systems, the ownership basis, the function and nature of state administration and the functions of man, his rights and freedoms to be realised under new democratic circumstances.

1 The development of the social situation in the last ten years

1.1 The social status of the population

The social status of the population is extremely difficult. It is illustrated by a number of factors. First, more than one half of the population is unemployed and are thus unable to provide for themselves or their families. That it is so is supported by the fact that in mid-2000, 264,585 people were unemployed in the BiH Federation. The **unemployment rate** in the Republika Srpska is even higher⁶. If we add to those numbers a figure of 100,964 persons in the BiH Federation who are only beneficiaries of veteran and disability allowances or of the children's and social protection systems, we point a very critical picture depicting the social situation of the population in Bosnia and Herzegovina⁷.

6 According to the data, the unemployment rate at the BiH level is 39,1 %.

7 According to the statistical data, the number of beneficiaries of social and child's care in the BiH Federation in 2000 is 144 737 persons.

The picture is made worse when we look at the average salary which was around 400 Convertible Marks in the Federation and below 150 KM in the Republika Srpska in 1999. The average salary, according to statistical indicators, confirms the fact that the majority are employed in other-than-economic activities which are funded from the budget. This is how one comes to an average which exceeds real economic and financial situation faced by the greater part of the population of working age. The average pension in the year 2000 in the BiH Federation is 176 Convertible Marks and below 70 Marks in the Republika Srpska.

A huge number of citizens do not live off their own earnings and employment-based **sources of income**, such as cultivation of land, as they are not in possession of the land and are thus unable to cultivate it. There are many pensioners⁸ in proportion to the number of employees and those who pay contributions to the empty Pension Funds. In the year 2000, the contribution from one's salary to the Pension Funds amounts to some 25 % and the contribution netted off the salary 10.30 %, which is a big concern. There is also a huge number of unemployed people with a formal status of "employees"-they are still registered as employed due to an incomplete legal regulation of the field of labour. There are about 200,000 factually unemployed workers in both Entities. In the BiH Federation, the Labour Law affects around 140,000 workers⁹. We should add to this an inefficient existing employment rate and the necessity for job improvements which will inevitably follow the privatisation process. According to the Trade Union's estimate, over 80,000 currently employed people will remain jobless due to excessive employment, in the process of ownership transformation and job improvement. Moreover, a great portion of the BiH population lived on humanitarian aid, provided by the international community during the war. The number of beneficiaries of that aid has been declining since 1995. As of today, it is only refugees and displaced persons accommodated mainly in collective centres and a number of elderly and infirm people who are still covered by the aid programme.¹⁰ Various reasons have led the population to such difficult material and social statuses. We shall mention only some of those which, in our opinion, were predominant in determining the social and existent status of the population.

(1) The basic conditions for the serious material and social situations of the population is the **inability** of a great many people to return to their original homes and places of pre-war residence. According to some incomplete data, over 750,000 citizens of Bosnia are believed to be displaced persons or refugees and are still unable to repossess their properties, primarily real estate such as land, houses, apartments etc. According to certain data, around 900,000 people are believed to be refugees in third countries.

8 In mid 2000, just in the Federation there were 272 029 pensioners, while the estimate is that in the Republika Srpska there were about 150,000. To this we should add incomplete data provided by the Pensioners' Fund of Herzegovina.

9 According to the statements and analysis by the BiH Trade Union. See Oslobođenje of 16 May 2000. While the official statistics has registered in the BiH Federation 52,987 laid-off workers, those companies in a difficult situation, persons remaining jobless due to the military and police reductions were not taken into account.

10 The number of persons who received humanitarian aid every year varied from mid 1992 to 1994; more than one half of the population lived on humanitarian aid; the number reduced/is reducing, and today only a small number is dependent on humanitarian aid.

The process of return over the past several years has been extremely slow. However, the number of returns and their intensity was accelerated by a significant degree after a series of actions taken by the High Representative for Bosnia and Herzegovina in early 1999 and the considerable material assistance provided by the International Community for the reconstruction and repair of housing devastated during the war. Reconstruction was understood to be the major prerequisite in the process of normalisation and with respect to the lives of those who were returning to their properties. True, the data pertaining to the returns realised in the year 2000 are indeed encouraging; the continuance of this trend will be most desirable in the coming period¹¹.

This is why the implementation of Annex 7 to the Dayton Agreement is a priority for all political forces and authorities. The International Community rightly considers returns to be the key issue in its programme in the coming period of the peace implementation in Bosnia.

(2) The second important issue concerns the **impossibility of employment** for young people and all others who are still unemployed. Almost all the businesses, factories and economy were destroyed during the war and the economic structure was incapacitated. That difficult situation is further complicated by another significant problem concerning internal obstacles such as difficult or limited labour mobility and employment possibilities for various reasons, primarily national ones. Moreover, the authorities, either at the Entity level and lower levels of administration, fail to introduce incentives; the transition and privatisation process is too slow and citizens are not used to taking private initiatives; there is no capital which would serve as the basis of a new economy.

(3) Another serious obstacle to the improvement of the material and social status of the population is an **inadequate tax system** which discourages foreign investment. In addition to the unregulated legal relations concerning the ways of stimulating investment, there is no security or guarantees for equality between domestic and foreign invested capital.

The non-existence of a common BiH Border and Customs Services has been a long-standing obstacle in the normalisation of economic development, for the establishment of tax system, or for the prevention of corruption and other forms of crime. The uncontrolled state border and import of goods and the subsequent impossibility of protecting domestic products are seriously detrimental to the economy and business operations of numerous companies. The High Representative for Bosnia and Herzegovina established a common State Border Service early this year. However, the processes of control, work and efficiency of this institution are continually conditioned by the forces in the Entities. The control by the State Border Service is still insufficient, while not all forces have been involved in the maintenance of internal order or the normalisation of relations with neighbouring countries.

Closely connected to this problem is the **issue of inter-state co-operation** and agreements between BiH and Croatia and BiH and Yugoslavia. The parallel relations are used in reality primarily for business operations of those companies which are evading customs or any other fees they have to pay to the state. The issues of trade and economic and cultural relations be-

11 According to the data on realised returns, more people have returned in 2000 than in the past four years.

tween the countries in our neighbourhood are important. It is required that they be normalised and made transparent as soon as possible in order that they do not one day become an obstacle to the normalisation of the situation and the overall relations of interest and benefit of citizens and the states.

Many pensioners, laid-off workers, soldiers, disabled war veterans and many other categories which acquired certain rights in the form of "privileges", and the inability of the economy and budget of the governments to reconcile financially those privileges, constitute a crucial obstacle to the regulation of relations in the field of labour. Up to now, it is only the market labour mechanism that has been established through some elements of the Labour Law, which pertains to a reduction of workers' rights and the simplification of the procedures of dismissing and employing people. There has been no labour legislation made, such as the Law on Employees' Councils, Law on Job Placement or the Law on Pension and Disability Insurance. In practice it has been shown that it is necessary to establish fully and regulate legally the field of labour as a precursor to transition and a new market mechanism in which labour will be only one category complementary to capital.

Excessive promises, numerous disabled persons, pensioners, laid-off workers etc., are a huge burden to the economy; this is still reflected in high taxes and contributions and various debts¹². Such a situation significantly reduces job opportunities. Inadequate privatisation and the lack of fresh capital which would revive new companies and their production and the heavy burden on personal income and high contributions are obstacles to the creation of new jobs and thereby to any significant changing of the social status of the working and the rest of the population.

The lack of regulation of relations in the field of labour and the lack of a clear economic system have resulted in the **loss of many young professional people** who have left the country for good. According to some unofficial data, more than 200,000 young people have left BiH since the signing of the Dayton Agreement, i.e. in the period between the end of 1995 and 2000. This will have far-reaching consequences for the structure of the economy, with enormous human potential ultimately necessary for its development and the overcoming of the serious situation no longer available.

The problem is also complex in the social sphere. In pre-war Bosnia and Herzegovina, there were close to 50,000 **socially vulnerable people**. The war destroyed the existent basis for some 600,000 people of whom 400,000 were of working age. The economy has no possibilities nor do the authorities have the resources to secure the necessary means for the increasing needs of a socially vulnerable population. This is the reason why it is necessary to redefine the minima of social protection according to various bases for those categories in special need. This activity should naturally be followed by labour and social legislation and the new functions and sources of funding by the state which it must take over under the conditions of a market economy.

In order to change the social situation of the population, it is necessary to establish a long-term and a short-term programme of measures at the Entity level and also at the level of Bosnia and Herzegovina. These programmes must be **reform programmes** and realistic, including clear and possible **sources and methods of implementation**, clear **deadlines** and **agents**. It is also necessary that the programmes be designed so as to improve the labour situation and increase income and provide the possibility of the survival and functioning of the economic system either without foreign aid or with its significant reduction. Under the current conditions no entity budget is self-sustaining or is able to fund various liabilities from its original revenues. The Entities are reconciling their liabilities with significant help from the International Community.

Under the existing circumstances, no government has a social programme or systematic measures for overcoming the situation in this sphere. All actions remain partial and extorted by strong pressures, strikes, blockades, threats or political promises. It is necessary for this reason to adopt at the state level a clear programme of economic and social policy, accompanied by the entity care and a practical implementation which will mean a gradual overcoming of the present material, social and economic situations. This would in turn help to create conditions for reducing the poverty rate down to an acceptable level. This would be a systematic and planned solution to the most complex problem which Bosnia is facing today, one that would not only be a short-term fix.

1.2 Expelled population and refugees and their social situation

The specific characteristic of Bosnia which makes it different from any other country in transition, replacing one system with another, is the 1992-95 war which left behind numerous displaced persons or refugees. According to some incomplete data, over 1,500,000 people are believed to be refugees and **displaced persons**. Of that number, over 700,000 people have been registered within BiH as displaced persons. That number are changeable since a number of them have returned to their original homes and the data is different and dependent on the year in which there were collected. However, the variable does not change so much as to reduce all the difficulties or affect the analysis and the evaluation of the situation. There used to be some 700,000 to 800,000 **refugees** in third countries. That number is much smaller today, since many of them have returned to the places of their origin, while a number of them has become displaced refugees. According to the statistics, incomplete as they are, (although the data provided by UNHCR and by some other organisations are different) there were 520,000 displaced persons in the BiH Federation as of 30 June 2000. By mid-February 2000, 207,000 people returned to the Federation. According to some other incomplete data – many applications are being processed – around 50,000 people returned to their original homes in the year 2000, which is much more than the number of realised returns in the previous post-war years. This has resulted from the measures imposed by the High Representative for BiH, which have helped the return process and prevented the Entity authorities from obstructing return. However, apart from the said measures and the period of almost 5 years behind us, the situation surrounding refugees and displaced persons remains difficult. It has been assessed that as little as 6 % of that population has returned to their original homes and properties.

12 Contributions from personal income amount to 81 %, which is still a high percentage. At the beginning of 1996 it was around 125 %.

Numerous problems surround the **issue of returns**. However, there are some crucial ones which need to be eliminated in order for the fundamental human rights to possession and property, the right to choose one's place of residence and work to be realised fully. The key problem lies in the lack of political will on the side of the Entities. The obstruction of returns is not equally strong everywhere: it has been stronger in the Republika Srpska, in the areas with a Croat majority and those controlled by national parties. They are creating a political space for survival and not for any returns. In pursuing that idea, they choose to build new ethnically clean settlements for one ethnic group only. They aim at homogenisation and obstruct any returns. Frequently such settlements, constructed in the valley of the River Neretva and some other places, are funded by the authorities of the Republic of Croatia, and others even by the authorities in Yugoslavia, through various programmes and forms.

In addition, there are different patterns of administrative blockage to the right to return, the repossession and use of one's own property and the returns of the population to their own homes and land. This can be exacerbated by numerous regulations and requests by the administration that the possession of the real estate or property be proved. The High Representative for BiH has been forced on a number of occasions to revoke some provisions or even regulations in both Entities, with a view to preventing obstructions and creating preconditions for faster returns and the realisation of the right to return. In addition, the High Representative removed numerous officials who should have implemented the law but who decided rather to obstruct or prevent its implementation.

It is obvious that Bosniaks are demonstrating the strongest interest in returning. Then come the Serbs and only then Croats. This could not be an expression and determination of refugees and displaced persons but because of the policies pursued by the national parties which are preventing the normalisation of the situation and relations in Bosnia and Herzegovina.

The return process is being made difficult by the status of refugees originating from neighbouring Croatia who are currently accommodated within Bosnia and Herzegovina. According to the incomplete data, it is assessed that there are between 400,000 and 500,000 refugees from Croatia. The accommodation of those people and their problems are considerably slowing down and complicating in political terms the implementation of Annex 7 - returns.

In the existing situation the **Law on Refugees and Displaced Persons** has been enacted at the level of BiH. However, the BiH institutions do not have powers or institutional strength to implement the Law in practice. The role of the BiH institutions is reduced to a co-ordination of the Entity authorities and monitoring of the situation. In order to overcome a very difficult situation and restore the rights of many people, there is a strong need for an increased financial assistance from the International Community and a much increased co-operation between the Entity authorities in the implementation of the right to return, rather than such obstructions of that process. This in fact implies the economic possibility for the survival of returnees, i.e. the creation of conditions conducive to employment and thereby normal lives, an increased security and equality of citizens. Refugees and displaced persons are seen as a huge burden to the ruling authorities. In addition to being expelled from their pre-war homes, their employment is almost impossible while the domicile residents are still unemployed. This difficulty further complicates the return process and sustainable returns.

For the time being it would be absurd if those citizens returning from one Entity to another become an ethnic minority, therefore less protected than others and consequently less safe. This is why it is necessary to undertake a series of political and constitutional actions to allow the implementation of the BiH Constitutional Court's Decision on Equality of the Peoples in the whole territory of the country as fully and quickly as possible.

1.3 Problems concerning employment, education, the labour market and employment policy

According to the International Labour Organisation, the **unemployment rate** in BiH, in its both Entities together, in mid 2000, was around 40 %.¹³ This is the highest unemployment rate in all European countries. The total number of unemployed people, according to data from the BiH Employment Bureau, amounts close to 410,000 and is higher by around 40 % than the number of unemployed before the war, despite the fact that the population decreased by almost one third. The number of employed as opposed to the number in 1991, reduced from 1,04 million to 630,000. At the same time, the number of employees in the public sector increased by 15,000 and reached a total of 165,000, while the number of employees in the whole economy reduced by 430,000 to the current level of 460,000.

The existing magnitude of economic activities established after the war places BiH at the bottom of the list of not only European countries but also those countries in transition. The economic development of BiH in the pre-war period was proportionate to that of other Republics. It used to export 20 % of its social product outside the borders of the former Yugoslavia and import slightly less; its exports amounted to some 300 million US\$. This, plus almost the same size of exchange of goods within the former Yugoslavia make it clear that the success of the BiH economy was dependent on foreign markets¹⁴. Until 1992 the Bosnian economy was based on economically large systems which employed over 700,000 people or around 70 % of the total number of employees. They were the **key companies** which employed the majority of the labour force, and participated significantly in export and foreign trade. Their infrastructure (staffing, financial, space and technological) was devastated during the war or relocated or used for some other purposes as necessitated by the war. After peace had been established, no support was given by the local authorities or foreign investors to their rehabilitation. Instead of financial support and fast transition or privatisation by those companies with capital, such enterprises were blocked legally and financially and left to undefined status in terms of ownership and management structure. This is the main reason for which it is not possible to count on a faster pace of employment. Most of these companies barely subsist; their workers receive no salaries, almost nothing has been done to restructure the market, and their technologies are already outdated.

It follows clearly from the above that there is a necessity for taking action in order to **establish new ownership structures** of the economic capacities, including measures which will

¹³ See Monthly Bulletin of Statistics, Vol. LIV, No. 6, June, UN New York 2000

¹⁴ See more details in the study of the BiH Employment Bureau, known as Politics and Employment Programme in BiH, Sarajevo, September 2000.

ensure the start up of production, such as modernisation, technological and market orientation, and the creation of all other conditions conducive to employment of the unemployed population.

By mid-2000 the number of employees in the country increased by some 7000, in comparison with the same period last year. The annual labour inflow in the employment office records is around 120,000 of which 10,000 are net inflow, meaning the persons who have been registered for the first time. If we compare the number of new jobs with the inflow in employment office records, the new labour inflow exceeds its net outflow by some 40 %. The tendency of an increasing unemployment rate has continued during the privatisation process. According to the data of the Employment Bureau, some 150,000 currently employed workers will remain jobless in the process of large-scale privatisation.

It usually takes three years to get a job, while senior generations (35-55 years of age) are seeking employment sometimes for more than five years. Their retraining, a necessity in normal economic conditions, would have no sense, since the new jobs are not created at the desired speed.

Of the total number of unemployed, 65 % are people who have completed their education and are seeking employment for the first time. With the exception of information scientists, professors of English and certain professions in the field of civil engineering, most of the educational institutions are teaching students who will end up in the Employment Bureaux. In market economies, a margin of six months for seeking employment of educated people is considered as tolerable. Here they seek employment for more than two years. Add to this problem the issue of refugees, and unemployed demobilised soldiers, and the overall problem of unemployment becomes a huge one and surpassingly complex for all authorities and the establishment of an economic system.

There are no mechanisms or forms of stimulating development of the less developed areas in the country. The economy provides no possibilities for a faster employment; there are no facilities or incentives for a free market and tax facilities. This further complicates the picture of the social situation in Bosnia and discourages young people and also entrepreneurs from engaging in this climate.

Under the conditions of huge unemployment, it is not possible to establish a functioning labour market. The labour market can not exist when there is an excessive labour supply and the price of labour force under such conditions is not defined realistically nor can it be the minimum starting point for a social dialogue and negotiations between government and the trade unions. A starting point for the trade unions, workers' rights and the labour market would be a law enacted through parliamentary procedure. It is only through such a law that the labour market can be protected. But there would also be a significant neglect of the free market, the rights of companies and the possibilities for labour mobility.

The problem of **employment** in Bosnia is obviously **the most serious economic, social, developmental and political problem**. It affects the youth of the country. The State of BiH, its Entities and Brcko District share this problem and its seriousness on equal terms. In order for this situation to be changed for the better, it is necessary for the governments at all levels to

draw up a strategy for the economic and social development of the country in which the basic economic aims would be the transfer of ownership, modernisation, the creation of conducive conditions for economic development and encouragement of employment. The employment strategy should be based on a regulated macro-economic climate, a social function of the state separated from economic and market trends and encouraging measures for the recovery of economic capacity and overall business activity, with a view to employing as many professional and capable young men and women as possible.

2 Steps toward social security reform

2.1 Pension and disability insurance

A social picture of Bosnian society will be completed if we make an analysis of the situation of the population approaching the end of their lives, living on social welfare or pensions. In view of the process of economic transition which commenced in the early 90's, employees at that time were given the opportunity of acquiring the right to pensions under favourable conditions. These favourable conditions implied 30 years of service or 55 years of age as a condition for retirement. Or even after just 20 or more years of employment in certain services such as administrative authorities, the military and police, irrespective of one's age. These measures were aimed toward freeing the space for transition and a faster economic transformation. However, those favourable conditions only applied until a new regulation was enacted in the field of pension and disability insurance in 1998. In respect of the number of employees and the manner of funding the pension funds, there is **an extremely large population of pensioners** in Bosnia. 272,029¹⁵ pensioners were registered in the BiH Federation and around 150,000 in the Republika Srpska. The figures indicating the size of the pensioners' population vary since they depend on the realised returns into the Entities and the acquisition of the right to pension and disability allowance paid from the Fund of the respective Entity. The average pension in the BiH Federation in 2000 was 176 KM, and in the Republika Srpska below 70 KM.

The situation in the areas of pension and disability insurance is made difficult by the fact that there are **three separate funds**: two in the BiH Federation and one in the Republika Srpska. Moreover, the status of people who retired in other Republics of the former Yugoslavia, e.g. in Slovenia, Croatia and Serbia, has not been regulated yet.

In view of the poor economy and its likelihood of meeting the needs of the pension funds, various possibilities have been identified for the payment of pensions and even for as incremental increase from time to time. Nevertheless, a critical problem cannot avoid one's attention, as it must be considered as a systemic issue. It is necessary to find answers to the question as to how it is possible that the **Pension Funds** be self-sustaining and functioning. The contributions from the income of employees amount to 25 %, plus 10.30 % netted off personal income. This is a heavy burden which the economy and employees will not be able to

15 Although there is statistical data on the number of pensioners in the BiH Federation, it is still not reliable since it does not cover pensioners paid from the Mostar Pension Fund.

bear in the future. This unresolved status of the Pension and Disability Funds is an additional burden on the privatisation process and economic transition. In the privatisation and transformation process, 20 % of the price of a company is invested in the improvement of the financial status of the Pension Funds. This is a short-term measure, still insufficient as a solution to this complex and serious problem involving the needs of such a huge number of beneficiaries.

The situation of pensioners is made even more complicated by those disabled individuals who worked under difficult circumstances amidst a chaotic economic structure in Bosnia and grew ill or became incapacitated. The pre-war Bosnian economic structure was mostly basic industry under difficult working conditions resulting in frequent, serious injuries at work. Another category of disabled individuals include those who became disabled during the war as either military soldiers or civilian victims. In addition, there is yet another category of people who lost one of both parents and are entitled to one of the welfare rights, either be it a family pension, disability allowance, child's allowance etc. Currently, the three categories include over 300,000 people.

Apart from systemic measures in this field, it is necessary to do a **revision of the acquired rights**. This means there is a strong need for the reduction of the original payments and the encouragement of social integration of disabled people by the creation of conditions for work, allowing them to contribute to both their community and their own welfare.

2.2 Health care

Free health care is an encouraging element in the current situation. It makes the lives of pensioners, disabled people and other socially vulnerable groups relatively easier. The health care sector has not been restructured yet. Health services, either primary or secondary, are provided free of charge to pensioners, disabled persons, children and other people in social need.

Health services are funded from the income of and contributions from employees. Within the **reform**, some steps have been made towards a gradual transfer from health services to new situations combining the market and contributions. However, the transition of education, health and some other sectors has been **postponed** until a later phase, after the processes of small and large-scale privatisation have been completed. There is sufficient capacity for adequate, even high quality health care throughout the majority of the country. True, the health funds are in difficult shape as well and consequently the material and social position of workers employed in the health sector is difficult too¹⁶.

3 Transition in Bosnia and the prevalence of political and economic difficulties

The **transition of Bosnian society** has been very slow in terms of political transformation and the democratisation of social relations and the institutional system; much time has also been spent in the transformation of ownership and the establishment of an economic system on a

new basis. An endless number of arguments and justifying reasons could be found in support of this predicament.

The term transition itself does not define the essence and depth of the social changes are urgently needed in Bosnia in order to overcome all the negative consequences of socialism and the past war. The transition in reality is seen only as a process of ownership transformation rather than the overall transformation of a society and system into one emphasising new conditions and behaviour, new values and bases, new logic, as well as a comprehension of laws and legal norms and the position of the state.

In other countries, the processes of transition and privatisation occurred only after the democratisation and liberalisation. Theoretically, such a process of transition is known as an open model. Here that process was faced with **considerable disorder from the beginning**. First we had strong centralisation with the transformation of socially-owned property or the property owned by workers into state-owned property. Privatisation followed thereafter without prior democratisation. This has yielded a closed transitional model. The characteristic of such a transition is that its processes are conditioned by a political transformation in which the balance is tilted in favour of authoritarian power, rather than of democracy. Political transformation defines economic transformation, while the latter is unable to condition, change or encourage political transformation. This is a circle in which the chains of previous misunderstandings and the lack of freedom in all spheres of life cannot be broken. They continue to be the principle mainstay of national concepts and territorial self-containment of the respective areas.

A theoretical model does not have to be explained with regard to Bosnia. The practical aspects justify the above evaluation. The **fragmented authority**, usually established at the entity level, is not orientated toward fast social transition and democratisation or entrepreneurship, but towards **national domination and homogenisation**. This is why the transition process is too slow, inefficient and maintains an old model of ideological concept in which a class-based approach is replaced by a national approach. All changes in society are reduced to a national dimension; they are a starting point and also an origin of the activity and effect of the authority and its political factors.

In order to ensure a consistent transitional system and to establish a new one, it is necessary that **the BiH State** functions as a whole. And this is exactly the major problem of transition. Bosnia as a state is **not functioning**. No authority has the legislative authority to generate the dynamics of positive processes throughout the country. There are no strong institutions at the level of BiH or political agreements for important changes. The Entities intend to reduce transition to privatisation of what exists within their respective territories, while the entire privatisation is being conducted in an ethnic, territorial and fragmented form. There is no law on privatisation at the state level. The Entities have enacted regulations at their level. In practice, privatisation often turns out to be a political privilege without money and fresh capital, reality or market value. The International Community has pointed to this fact on a number of occasions and intervened in order to stop the unrealistic sale of companies.

In the transition process, an alternative to the socialist social model in Bosnia is nationalism and not social transformation and democratisation; it is a deprivation of human rights as op-

16 Around 20,000 people are employed in health and social protection at the BiH level.

posed to ensuring one's fundamental rights; undemocratic procedural process as opposed to freedom and tolerance; social deprivation as opposed to national identity etc. This model of transition will certainly bring about fear and aversion to the forthcoming change. Based on the Bosnian tragic experience, people are aware that change is for the worse only. This is why the key issue of the transition process is how to convince people, and not only the authorities, of the **urgent need for change**. The rights of people remain peripheral in the minds of those who should know better.

3.1 Slow privatisation and economic reconstruction

The **privatisation** process in BiH is closely linked to the transitional process. The issue of **ownership transformation** is undoubtedly very complex and difficult under the prevailing conditions in Bosnia. Those conditions are a legacy of the past which hadn't been very clear as to the destiny and rights of private ownership. However, this is not only the legacy of an ancient but of the recent tragic past as well. At the beginning of the 90's, Bosnia and Herzegovina was faced with a war instead of transition, which had been the path of all countries after the fall of socialism. A serious devastating war struck Bosnia. Companies were looted, over one million and seven hundred thousand people were expelled from their homes, their private properties were looted and devastated, business relations were broken, the communication infrastructure destroyed, etc. One of the characteristics of the war was the looting of resources in BiH. However, not everything was devastated by the war. This should be said for the sake of scientific truth. Many things depended on the persons and authorities and their ability and intentions to protect and revive a major part of economic capacity. This has further complicated the process of transition and distribution of property in the State of Bosnia and Herzegovina.

A no less important cause of the slow and complex privatisation process lies in the **lack of co-operation** by the nominal authorities established after the Dayton agreement. The political scene is still dominated by the forces which generated the war and its atrocities which did everything in order to cripple Bosnia and Herzegovina as a state. As in the past, the ruling authority is surviving on a national rather than economic, legal and social concept. Under such political circumstances, most laws were enacted. They allow for the transformation of ownership and privatisation. Their solutions are as a part of result of political settlements between national forces, and not part of a consistent system which would enable an efficient process of changing the ownership structure, aid the revival of the processes of employment and lead to the establishment of a new economic, labour and social model.

Ownership reform does not mean a change for the better. A different owner is not the purpose but a model for a different and more consistent economic and political system. There is still a lack of will for such a model, as only a very small percentage of foreign capital has been invested through ownership relations, i.e. the purchase of a company or its shares, or new investments.

The **privatisation process** in Bosnia is being conducted in two separate stages. One is called small privatisation. It involves companies whose value is estimated at up to 500,000 KM. The second phase is called large-scale privatisation and it involves all other companies and the

various forms of sale, purchase, subscription and emission of shares. The entire process is **slow**. It complicates further the social situation – workers are being dismissed, new professions and technologies and a different way of working are required, even lower levels of social and labour rights are posited than the workers used to enjoy before.

The entities have not made an evaluation of their properties in the procedures of small and large-scale privatisation. In this phase, that which was purchased by citizens is to be privatised. Companies, apartments and business premises will be privatised. **State-owned property** will not be subject to privatisation. For example, monopolistic companies, PTT, Railways, Mines, Forests, lands owned by the State will not be subject to privatisation. Under pressure from the International Community the ownership transformation process has commenced in some monopolistic companies, although it is still slower than the rest of the privatisation process.

The **state** has skilfully incorporated in the general privatisation its own **liabilities** which have resulted from its promises and through various privileges with which it bought social peace. This primarily refers to the claims of citizens to the money they had deposited in banks, which was alienated during the war and remained in the states other than BiH after they became independent countries; and the unpaid salaries to soldiers, police officers, employees etc. In essence, the plan means a reconciliation of the state's liabilities by the citizens and dispersion of the state debt to the citizens through vouchers in the form of a general statement of account. In this way everything remains in an empty circle, without an inflow of fresh capital. The State began the privatisation process with the purchase of apartments. This means that the State wants to get capital from the citizens, which it would invest in the empty funds which the State must take care of. The privatisation of companies is left until the subsequent phase when the citizens will have no money, as they will have invested everything in the purchase of apartments and business premises, when they are to invest vouchers and promised claims. And companies cannot exist without fresh and sound capital. Thus, companies are placed in an extremely difficult situation in which they cannot start up the production process; they will instead have to yield again to the will of and salvation by the State.

If we are to analyse the privatisation process in greater detail, we would notice straight away that there is **no clear and consistent economic system** defined in Bosnia. Privatisation is only a part of a broad system which accompanies a new business climate, a reduction in administrative procedures and restrictions of activities, the establishment of the rights of workers, a consistent and sustainable tax system etc.

It can be concluded from the procedures and activities to date that **the existing authorities are unable to carry out transition** and ownership transformation without a conflict between the labour force and political elites. The authorities are deliberately obstructing each other at the Entity level. They are persistent in favouring a national collectivist concept, the fostering of tensions, resistance, appeals, gatherings and competition in extremism and requests for concessions to the detriment of others. That Gordian knot remains tied. As such, it had generated the war, with its tragedies and consequences more than devastating and catastrophic for all citizens. The end of the war did not mean a clear cognition; rather, the same practices continued, the same behaviour, the same rhetoric and actions.

If we want to be up to consistent analysis, we cannot help warning the reader of the situation which occurred in some socialist countries. They are dominated by the Mafia, which is closely connected with the political authority, a fact to which every well-intended man feels abhorrent. Values were totally devastated and a new management and political elite was established; it seized everything that socialism left behind. This is even more difficult in those countries in which war occurred and in which violence, plunder, betrayal, lawlessness and a connection between authority, crime and corruption is much stronger than in the systems in which at least some moral and legal rules exist. This situation is expectedly conducive to BiH, the forces in which are continually destabilising the system and obstructing the realisation of human rights, thereby preventing the process of reconciliation.

In order to stop an adverse squaring of a circle, it is **necessary** to establish a minimum for the **functioning state**, its independence, and a minimum of power and legality within the whole territory. An economic system and a **functioning legal order**, consistent to a certain extent at least and free from domination of politics should also be established. **Consistent economic system**, freedom of market, labour and competence of skills under strong conditions are a sound basis for breaking a circle of uncertainty and inability to leave a tunnel of darkness in which Bosnia and its transition are seemingly stranded.

3.2 Over-institutionalisation

Social transition in reality should be important in the sphere of a change of the role of the State and generally the administration over a citizen and legal persons who are defined in terms of ownership. Bosnia is faced with an extensive institutional organisation which represents a hindrance to the normal functioning and authority over the lives of the people.

There are too many institutions which were inherited from the previous system, such as administrative bodies, payment bureaux and many other administrations, funds etc. They all are the rarity of the old system; they have not been abolished and continue to exist only to burden the economic and social developments. If we add to that the structure of the organisation of BiH according to the Dayton Agreement, which is organised at several levels of authority, we get a picture of an **over-institutionalisation** of BiH. BiH has its original functions and has now the Council of Ministers with five Ministries. The BiH Parliamentary Assembly is a bicameral state institution, while the constitutional and judicial systems have not been designed or established at the state level.

Bosnia consists of the two entities which have their **separate autonomous governments**, ministries, judiciary and administration. The Entity Assemblies are different in different Entities. The BiH Federation Parliament has two Chambers, while the Assembly of the Republika Srpska has only one chamber. The entity territorial organisation is different as well: The BiH Federation has ten cantons, each of which has its own constitution, ministries, judicial bodies etc. There is a total of 84 municipalities. In the Republika Srpska there are only 64 municipalities, and no cantonal model or mediation between the RS bodies and the municipalities.

In addition to the entities, there is also the Brcko District in Bosnia and Herzegovina. It falls under the jurisdiction of the BiH state authorities. The Entities have no competence in that area. The District also has its assembly, government, administration and judiciary.

Many institutions, which were functioning before the war, remained under the Dayton at the level of BiH. These are, for example, the Academy of Arts and Sciences, the Archives, Institute for the Protection of Cultural Museums and Heritage, Institute for Statistics, hydro-meteorological and many other agencies. Interestingly, many institutions are functioning at the state and entity level, doing the same job in parallel.

If we want a swift transition, to an efficient state and democracy, it will be **necessary to reduce** the bodies of the territorial organisation of BiH and its **administration** at all levels. This is not an issue as covered by Dayton nor does it concern its revision, it is a matter of necessity for a state to function and serve the purpose of its own citizens.

Bulgaria

Lyuben Tomev

Director, Dr. econ.

Institute for Social and Trade Union Research of CITUB

December 2000

1	The development of the social situation in the last decade.....	39
1.1	Development of income and income policy in the period of 1991-97	39
1.2	Socio-economic developments since 1997	40
2	The reform of the system of social security	43
2.1	Health and health insurance	43
2.2	Pensions schemes.....	45
2.3	Labour insurance and accident protection	47
2.4	Unemployment insurance	48
2.5	Other social protection schemes	49
3	Education and employment	51
3.1	Reform of the educational system.....	51
3.2	Employment and active labour market policies.....	54

1 The development of the social situation in the last decade

1.1 Development of income and income policy in the period of 1991-97

The **economic reform** initiated at the beginning of 1991, whose basic manifestation was the liberalisation of prices, led to a 473.7 % inflation by the end of the same year. Naturally, this enormous pressure of prices could not be compensated by a corresponding nominal growth in incomes. Their real drop reached 38.8 % as an average for 1991. Within such a economic environment and with an almost complete dominance of state ownership, it became necessary to adopt a new type of income policy different from that of a planned economy.

The most common amongst the **income policies** adopted by the various governments up to 1997 was a declared orientation toward reducing the decline in real incomes. With the exception of 1992, however, real incomes showed a steady decline (Table 1). Summarising the final effect after seven years of attempts to carry out efficient income policies, under conditions of crisis and pseudo reforms, shows that at the end of this period the Bulgarian citizen possessed 3.4 times less means for their existence.

Table 1: Real-income Indices for the 1990-1999 period										
Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1990										
1991	61.2	100.0		100.0						
1992	65.6	107.6	100.0							
1993	62.7	102.5	95.2	100.0						
1994	55.5	90.5	84.6	88.8	100.0					
1995	50.7	82.9	77.2	81.1	91.3	100.0				
1996	34.4	57.0	53.2	55.5	62.5	68.5	100.0			
1997	29.3	48.5	45.3	47.2	53.2	58.3	85.1	100.0		
1998	39.7	65.8	60.9	64.1	72.2	79.1	115.7	135.6	100.0	
1999	40.9	67.8	62.7	66.0	74.4	81.5	119.2	139.7	103.0	100.0

Source: National Institute of Statistics. Budget of the households in the Republic of Bulgaria

Two basic regulatory mechanisms were used, namely: that of protection against inflation and that for the regulation of the funds for labour remuneration in state and municipal enterprises within the industrial sphere. The first mechanism has a stimulating effect in relation to nominal incomes, but as a rule it has never operated as an automatic 100 % compensation or indexation in our country, whereas the second one is of a markedly expressed restrictive nature. Their simultaneous application, with nuances of combination, led to big disproportion in the structure and dynamics of incomes during particular periods, and also to inconsistency in the selected priorities. As a result, certain kinds of income lost their significance (e.g. pensions), while other kinds acquired a rather de-stimulating effect (child benefits).

The gloomy series of two-digit monthly inflation figures during the seven months of 1996 resumed at the beginning of 1997. The political crisis was the decisive factor in the onset of **hyperinflation** and in the paralysis of all institutions possessing regulative and control functions. In the first three months of 1997 alone, the inflation reached 452.3 %. It is obvious that in this situation it is not at all possible to speak or think of any income policy, even be it a limited one. The attempts at reforming income policy during this seven-year period were a complete fiasco. The reasons must be sought from several places:

- The absence of decisive reforms in the economy made it impossible to conduct an efficient income policy based on the growth of labour productivity and gross domestic product. This is particularly valid in respect to the basic element of income, namely, the labour remuneration. Several times during these seven years the average monthly salary reached 100 to 120 US dollars, but it was always followed by a sharp or gradual decline. Under these conditions the economy lacked the strong potential for a lasting and appreciable growth in incomes.
- Though emancipated from the mechanism for regulating the growth of labour remuneration, the privatised enterprises of industry adhered, as a rule, to the levels of payment in the public sector. This also holds true for firms with foreign involvement. Adopting wages or salaries about or slightly above "Bulgarian Standards", the foreign investors were in a position to make essential savings from the lower costs of the workforce.
- The shadow economy flourished during the years of transition. According to various calculations it accounted for between 17 and 40 % of the country's gross domestic product. This development, on the one hand, created big problems for the treasury by depriving the budgetary sphere of the possibility for carrying out bigger increases in labour remuneration, while on the other hand it brought losses to social security funds, which experienced an acute shortage of funds required to meet the expenditures and cover the relevant insurance risks.
- An efficient income policy is impossible under conditions of galloping inflation ranging, at certain points, almost to hyperinflation. Over the entire eight-year period 1990 to 1997, consumer prices showed a growth of 138,636.3 %. Obviously, such an enormous inflationary burden cannot be neutralised by an analogous nominal growth in incomes. Attempts at certain times to index incomes with a percentage close to the inflationary situation only temporarily abated the critical situation and invariably led to new inflation and breakdowns in real incomes.

Underlying this vicious circle was the steady decline in production, the instability of the market, and the statutory devaluation of the lev.

1.2 Socio-economic developments since 1997

The **solution of the political crisis** and the **introduction of a Currency Board** in the middle of 1997 brought relief and financial stability. The new government succeeded in coping with the sharp decline in real incomes from the first months of the year; moreover, at the end there was a growth of 54.6 % in comparison with December of the previous year. Despite the indisputable success, however, this was only income level as at the end of 1995. The Government

declared that, on a short-term basis, it would pursue several objectives: to reach the level of 1992, then the level of 1990, and with the next stage to catch up with the leading countries of Central and Eastern Europe. This, on one hand, constituted an unambiguous admittance that the eight years of transition were lost for the reform, and in particular, for the income policy, while on the other hand it implied an ambitious commitment – to achieve a steady growth of real income for the population on the basis of economic growth.

The 1997-1999 period was marked by a sharp acceleration in the process of denationalisation of state property. The sale of entire enterprises and autonomous parts of them during these three years constituted 73 % of the total number sold after 1993, while the overall financial effect of the sales during that period was as 77 % of the total obtained since the beginning of the privatisation process. A high social price was paid in carrying out the heaviest parts of the reform, namely, the restructuring of the economic sector by consolidation or liquidation of what were called "enterprises in isolation", i.e. the money wasting and unprofitable firms in the public sector.

Financial macroeconomic stabilisation arising from the establishment of the Currency Board, the drop in the annual inflation rate to between 5 and 6 %, and the process of strengthening the real sector were the three main points supporting the new social and economic policies. The growth of the gross domestic product (by 3.5 % in 1998, 2.4 % in 1999, as well as a forecast for annual growth in the order of 4 to 5 % over the following three years) created conditions for gradual rises in real incomes, labour remuneration in particular, which had shown no real rise since 1993 (see Table 2).

1991	1992	1993	1994	1995	1996	1997	1998	1999
- 39.0	+12.8	+1.1	-17.9	-5.5	-17.6	-18.8	+22.5	+2.4

Source: Information from the Ministry of Labour and Social Policy

The **rise in average labour remuneration** in the country has been accompanied by a trend of priority-type rise in the budget-maintained organisations during the last three years. The ratio between average labour remuneration for the entire country and that within the budget sphere alone was 1 : 0.66 in 1996, reaching 1 : 0.83 in 1999. This became possible thanks to attained economic growth, to a lower deficit in the state budget, and to the strict fiscal policy pursued which made it possible to accumulate more funds in the budget. This finding is also valid for social expenditure and for the capacities of their financing (see Table 3).

Table 3: Relative share of expenditure on education, health services, social insurance and relief (in percentages)

Expenditures	To the general expenditures of the consolidated state budget					To the gross domestic product				
	1994	1996	1998	99*	00**	1994	1996	1998	99*	00**
On education	10.3	7.3	10.0	10.0	8.5	4.8	3.2	4.0	4.3	3.5
On health	8.8	7.2	9.3	9.4	9.8	4.1	3.1	3.8	4.1	4.0
On social insurance and relief	27.7	20.7	29.1	29.4	33.2	12.9	9.0	11.7	12.8	13.6

* Preliminary data of the National Institute of Statistics

** Forecast of the Ministry of Finance

Source: Statistical Yearbook 1999, National Institute of Statistics

However, the positive trends in recent years have not been accompanied by any changes in the low income levels of the population. By July 2000 the average general available income per member of a household in the country was 123.14 levs. This is only 51 % of the required means for the monthly cost of living, according to normal Bulgarian standards. The minimum monthly salary of 75 levs constitutes only 31.5 % of the necessary means and is even lower than the poverty limit of 88 levs (according to calculations made by the Institute for Social and Trade-Union Studies of the Confederation of Independent Trade Unions in Bulgaria).

The data on **household budgets** confirm this conclusion. In addition to a considerable shrinkage of consumption, profound changes have occurred in the ratio of cash incomes vs. cash expenditures within households. The payment deficit of a Bulgarian household can be defined as being unprecedented in its duration and size. It began in 1994 and reached its peak during the first quarter of 1997: in the course of three years households fell into a chronic and intensifying pattern of increasing expenditures over incomes. This particular paradox is an illustration of "life in the red" for a large number of households, which in turn leads to the conclusion that for the purpose of their survival households have used their free cash saved during previous periods and whilst resorting to loans in various forms. The relative share of expenditure on food, within the overall expenditure of the households – this being one of the most synthetic gauges for living standards – reached 50 to 55 % in some months, while it is between 15 and 20 % in countries of high living standards.

The trends toward a decrease in differentiation can be seen as a positive element in the income of households during the last three years. The ratio between the incomes of the richest 10 % and the poorest 10 % was 1 : 11.9 in 1995, after which it dropped to 1 : 8.9 in 1999.

The radical reforms undertaken in the real sector, as regards branch restructuring and consolidation or liquidation of unprofitable enterprises, have had a positive effect on the financial stabilisation of the country. However, the **social price** paid has not been low. Within nearly two years the employment rate dropped from 45.3 % (June 1998) to its lowest level of 39.7 % (March 2000). The avalanche-type rise in the level of unemployment (from 13.8 % in December 1999 to 19.0 % in April 2000) is due primarily to this process of restructuring in the real economy and to large-scale reductions in staff within the budget sector. In some regions of the country the relative share of the unemployed reached 50 to 60 % of the economically

active population. This is a problem affecting not only the living standards of the unemployed: it also threatens the existing financial stability of the social-insurance and budgetary systems.

Restrictive monetary policy sets limits on the opportunities for internal investments within enterprises. The narrowing of internal labour markets and the limited capacities of the external markets of labour to absorb the labour force released tend to stimulate illegal and informal employment. The high fiscal and social-insurance burdens on employers had a negative effect on small and medium-size businesses which did not succeed in generating new jobs or in playing the role of a buffer in the process of reconstruction.

The negative effect ensuing from the "recuperation of the economy" and the pressure from the social partners compelled the Government in August this year to announce **certain new elements in its socio-economic policies**. Essentially, this implies intensifying stimuli and reducing restrictions. From the beginning of the year 2001 there will be reduction in taxes and social-insurance rates paid by firms – by 5 and 2.4 percentage points respectively. Such alleviations are also envisaged in the scale of taxation for natural persons: a rise in the minimum rate not subject to taxation – from 80 to 100 levs and a decrease in the personal pension-insurance rate by 0.6 percentage points. The expected effects of these measures are a higher income for the treasury, an involvement of free resources in firms – which they should channel toward investments – and the creation of jobs. The prognosis of 250,000 new jobs is unrealistic but the obviously improved economic milieu for business will have a favourable effect on the employment rate.

The positive expectations are based on higher economic activity and a four-percent growth in the gross domestic product – a development which, together with a lower burden of social insurance and a minimum inflation growth of 6 % a year, will lead to the possibility of an appreciable rise in real incomes.

2 The reform of the system of social security

2.1 Health and health insurance

Until 1991, health care in Bulgaria was entirely run by the state. The transition from a centralised planned economy toward a market economy called also for the reconstruction of health services on an insurance basis. The entire period between 1991 and 1999 was studied by numerous debates as to how this new health-insurance model should look. Some preliminary work was done on the introduction of the system, but most intense efforts were undertaken in the middle of 1997. This made it possible, after July 1, 1999, to begin collecting the social-insurance dues, as shared by employees and employed, in order to accumulate the financial resources for the actual start of the reform a year later.

The fundamental principles underlying the reform of the health system are the following:

Equality and solidarity: The fundamental health requirements of each person must be matched by his right and by his access to a comprehensive package of efficient health services. Solidarity takes the form of adopting mechanisms of mutual aid between those who

need and those who do not need medical services, between young and old, between unemployed and employed – on the basis of health-insurance dues and premiums.

Democratic spirit: The aims of society are attained by joint efforts of free social agents and partners. Each patient has the right to be treated with full respect for his personal status.

Rationality: Intrasectoral efficiency is secured in the work of the health services through equitable, though at the same time most economical use of the resources available.

Pluralism: All parties within the health system, be they private or public, are partners in respect to their obligations and operate on a complementary basis.

Focus on consumers: Obligatory health insurance involves considerable freedom in selection and in personal care for the patient's health within the framework of proper regulation.

High professionalism: Those who provide health services must work on the basis of scientifically substantiated practice and of ethical norms, remaining fully responsible for their actions.

On the basis of the Law on Health Insurance (1998) and of the Law on Professional Physicians and Stomatologists (1998), the Government set up a **National Health-Insurance Fund**, with its central office in Sofia and with regional health-insurance funds as organs with parity representation by the insured, the employers and the state. Each year the National Insurance Fund signs what is known as the National Framework Contract with the professional organisations – the Bulgarian Physicians' Union and the Union of Stomatologists in Bulgaria – which determines the conditions and prices of the services to be rendered, as well as outlining a minimum and an enlarged package of medical services rendered free to patients.

At the start of the operation of the National Health-Insurance Fund in July 2000 the system of obligatory health insurance included only medical aid prior to hospital treatment. It consisted of the following structures: individual practice, group practice, diagnostic-consultative centres, medical technical laboratories, and first-aid centres. Hospital aid will be included in the system of health insurance after mid-2001. For the time being, the financing of hospital institutions still comes from state and municipal budgets.

Prior to the start of the reform all citizens had to choose their personal physicians and personal stomatologists, who assumed the function of family physicians and stomatologists. Obtaining medical aid from specialised physicians or the performance of laboratory studies required a referral order issued by the family physician. The condition for obtaining medical services is the regular payment of health-insurance premiums by the patients.

Health-insurance premiums for workers (6 % of their incomes) are paid jointly by the employer and by the insured at a ratio of 4.8 % to 1.2 % respectively. For the registered unemployed they are paid by the Vocational Training and Unemployment Fund for people of weak social position, for mothers on unpaid leave, etc. – from the local municipal budget for pensioners – by the state budget and for children – by working parents. Self-insured people pay their dues on the basis of 1 to 10 minimum labour remuneration rates.

Only several months after the start of the reform it is difficult to give an accurate **assessment of its results**. There exist extreme views in this field but, as a rule, these extreme opinions have a direct bearing on the successful selection of the personal physician. The initial stage in carrying out the reform led to much bureaucracy in report-writing, which took much of the physician's time. The main problem is, however, the varying degree of reformation of all structures in the national health service. The pre-hospitalisation aid joined the system of health insurance, the former polyclinics (now Diagnostic-Consultative Centres) were registered under the Trade Law, and they generate their own income used for their maintenance and for the payment of salaries. The first-aid centres are supported by the state budget, and extensive reforms must be undertaken in these hospitals where the situation is very serious. These discrepancies in the extent of reforming has led to acute conflicts among the different structural units within the system of health care, due to striking differences in the remuneration of medical personnel. There were also manifestations of egotistic interests which are, in the final place, to the detriment of the patients.

It is beyond doubt, however, that the solution to these problems lies in the speedy conclusion of the entire reform of health care in the country, which will create equal competitive conditions for the individual agents within the medical services.

2.2 Pensions schemes

Reform in the field of pension insurance began in 1995 with the separation of the Social Insurance Fund from the budget and the introduction of the tripartite principle in its administration. After the adoption of the Code for Obligatory Social Insurance last year, social insurance became completely based on new principles. The Law on Additional Voluntary Pension Insurance adopted in the summer of 1999 supplements and presents in a complete form the legal basis of the reform.

The **major principles** underlying the system are:

- solidarity of the insured persons,
- equality of the insured persons,
- social dialogue during the administration of the system,
- fund-type structure of the insurance resources.

Prior to the introduction of the reform the insurance dues were paid entirely by the employer. The new principles of insurance, as well as practised in other European countries, made it necessary to include also the insured into the payment of dues. However, equal participation in the settlement of insurance dues would be impossible given the existing low levels of labour remuneration in the country. The social partners therefore accepted the principle of gradual transition from predominant payment by the employer toward a gradual equalisation between their contribution and that of the insured. This will take place over the following period:

For 2000 and 2001	80:20
For 2002	75:25
For 2003	70:30
For 2004	65:35
For 2005	60:40
For 2006	55:45
For 2007	50:50

Three separate and relatively independent funds were set up within **the system of the National Insurance Institute**. They are the Pensions Fund, the Labour Accident and Vocational Disease Fund, and the General Disease and Maternity Fund. In this way long-term pension insurance was separated from short-term insurance, as represented by the remaining two funds. The fully independent financing and operation of the **Pension Fund** made it possible to calculate the acquired rights on pensions by linking them to the length of the insurance period and to the amount of pension dues paid, on the basis of a points system. For the year 2000 the overall size of the insurance premium for the Pension Fund is 32 % of the insurance income; 25.6 % of that is at the expense of the employer and 6.4 % at the expense of the insured.

Drawing on the experience of European countries, Bulgaria worked out a model of pension insurance which includes three pillars of insurance:

First pillar – a joint pension plan covering the expenditures. It is an element of obligatory pension insurance and constitutes the basic pillar of the system.

Second pillar – based on a capital principle and individual participation. It is likewise obligatory and, essentially, it involves collection of definite instalments from an individual account. The personal capital collected is used for the payment of a personal additional pension.

Third pillar – additional voluntary pension insurance on a capital principle. Citizens are free to choose whether they want to obtain additional insurance from one of the nine licensed private pension-insurance companies. Upon the occurrence of the insurance risk they receive an additional third pension which amount depends on the value of individual instalments and on the duration of their accumulation in the Fund in a personal account. The possibilities offered by this third pillar are used by a number of firms in a process of collective contractual agreement, with the employer taking over part of the voluntary instalments of his workers.

After setting up these pillars of pension insurance, it was made possible to combine legal compulsion and personal choice – which differ in their nature – in covering the same type of risks, a situation which attributes higher quality and efficiency of protection. The combination of personal and public interests was attained along the line of hierarchical dependence between these three independent pillars, the participation in each successive one being a prerequisite for insuring under the previous one.

The reform carried out in pension insurance is unanimously assessed as being a most successful and comprehensive transformation in the sphere of social policy, with broad participation from the social partners.

2.3 Labour insurance and accident protection

It has already been mentioned that accident insurance was separated from the Fund of Labour Accident and Vocational Disease within the framework of the National Insurance Institute. The amount of insurance (instalment) is 0.7 % of income and is entirely borne by the employer.

The nature of **labour accidents**, as social risks potentially threatening a large proportion of people but actually only occurring in a small number, accounts for its high social importance and for the need for regulating this risk on a principle of solidarity. In this connection the new Code of Social Insurance places greater emphasis on:

- the prevention of risks with a view to eliminate the causes of labour accidents and vocational diseases;
- the introduction of differentiated insurance premiums for individual insurers, on the basis of the good or poor performance of the respective firms with regards to industrial trauma, vocational and prevocational sick-rates, the real state of the working conditions, the adoption of or failure to adopt efficient measures, etc.
- new methods and new agents to be used in the determination, investigation, recording, and accounting of and for labour accidents. For the first time, after several decades, the prime role will be that of the organs of the National Insurance Institute.

In order to have a full and comprehensive picture of labour trauma, the insurer (the employer) must introduce and maintain a record of labour accidents and must ensure proper safekeeping of the statements on labour accidents and the instructions as issued by the respective territorial division of the National Insurance Institute. New indicators have been introduced for analysing the state of trauma, by linking it directly to the number of working hours lost.

The qualification of an accident as a labour accident (this refers to vocational disease as well) is carried out through a series of legally established procedures. A novel element in these procedures is the right of the person affected by the accident (or of his heirs) to be present at the investigation or to appoint deputies on their behalf: a worker or employee of the same vocational branch, a member of the family, or a representative of a trade-union organisation.

The Law on Healthy and Safe Conditions of Work (1998) sets up permanently operating organs of co-ordination, consultation and co-operation in the definition and realisation of policies ensuring safety and health at the various workplaces. Such organs are set up on a national, branch regional and company level.

The institutionalisation of the dialogue on problems of **labour conditions** is a new aspect within this trend. Nineteen regional councils on labour conditions have been set up, on the principle of parity, since the middle of 1999 to the end of the first six months of 2000. Regional programmes and projects are being realised with the financial support of the National

Labour Conditions Fund. They are oriented toward training and helping employers, unions, and Committees on Labour Conditions. This implies not only the solution of serious problems of labour conditions, which concern individual or groups of enterprises in the region, but also the formation of active regional policies in defence of fundamental rights in the particular workplace, the struggle against unfair competition arising from social dumping, and violations of labour and insurance legislation.

Rapid and fundamental change in this field cannot be expected, despite the modern legislation that has been introduced in the area of accident insurance and labour protection. **Problems** have been accumulating for decades and there are not sufficient funds or investments to abolish the harmful technologies and depreciated material and technical structure. The pressure from international organisations to abolish cash bonuses, (existing as a part of the Labour Code) paid for working in harmful conditions is being viewed in different ways by the social partners in the country. It is obvious, however, that a step in this direction should be taken if we are to realise a comprehensive programme related to labour conditions; this must involve the investment process, and the creation of stimuli for abolishing harmful and dangerous work conditions leading to the repeal of this type of additional remuneration. Any opposite steps would be to the detriment of those working under such conditions.

2.4 Unemployment insurance

The Law on Protection in Unemployment and on Encouraging Employment, adopted in 1997, deals with social relations in the following directions:

- unemployment insurance
- encouraging and promoting employment
- vocational training and re-training

Mediation in providing information and in finding jobs for Bulgarian citizens in other countries and for Bulgarian and foreign citizens in the Republic of Bulgaria.

A **Vocational Qualification and Unemployment Fund** was set up to meet these needs. It operates under the National Agency on Employment, through its organs – an Executive Council and a Supervisory Council – the latter being based on the principle of parity: an equal number of representatives from the Government, from the employers' organisations, and from the trade unions.

The principle sources of income in the Vocational Qualification and Unemployment Fund are the monthly insurance instalments and special sums from the state budget. The size of the insurance instalments initially varied between 4 and 7 % and were borne entirely by the employer. The insurance premium is currently fixed at 4 % of the insurance income, 3.2 % at the expense of the employer and 0.8 % at the expense of the insured person.

As regards expenses, they are of two types, passive or active, depending on the nature of the financed activities. **Unemployment insurance** relates exclusively to passive activities. They involve:

- granting of cash compensations in the case of unemployment,
- cash allowances in case of unemployment and
- instalments to social-insurance funds for unemployed persons.

The right to cash compensation belongs to those unemployed who had been working under a labour agreement and had been insured against unemployment for at least 9 of the last 15 months prior to the termination of the contract. The unemployed are obliged to register with the National Agency on Employment (the Labour Offices) as being unemployed, as looking for jobs, and as being ready to engage in appropriate work.

The size of cash compensation for unemployment persons who have worked full time constitutes 60 % of the average monthly total labour remuneration over the previous nine months. However, a lower and an upper limit have been adopted, i.e. the compensation cannot be less than 80 % and not more than 150 % of the minimum labour remuneration for the country. When the unemployed have been working part-time prior to the occurrence of the risk, the size of the compensation is determined in proportion to the contracted time.

The length of time cash compensation for unemployment is paid depends on the length of service of the individual and varies between 4 and 12 months. Those who remain unemployed six months after the expiry of compensation for unemployment have the right to unemployment cash benefits which amount to 60 % of the minimum labour remuneration, though for a period of not longer than three months. After that, the unemployed are under what is known as the 'second protective network' of social aid.

While the relative share of the funds paid for **passive measures** during 1997 was about 70 % of all funds spent, at the beginning of the second semester of 2000 this share had reached 90 %. This is due to the avalanche-like increase in unemployment, which confronted the Fund with the possibility of financial collapse, and endangered its capacity of paying compensation to the unemployed in accordance with their real rights.

It is not possible to expect a radical reformation of the unemployment insurance system. An increase in insurance premiums would negatively affect the incomes of the employed and the capacities of the employers to set aside resources for investment in new jobs. To that end, taking a short-term perspective, the **financial crisis of the Fund** will be eased by funds from the state budget, with the expectation that the policy of accelerated economic growth will reduce unemployment to lower levels. (see also chapter 3.2.)

2.5 Other social protection schemes

The changes in the system of social aid require a **new philosophy** which is subordinate to several basic principles:

The first principle lays the foundation for a legal arrangement affecting the rights and obligations of citizens who are placed in unequal positions – in accordance with the requirements of the Social Charter on Human Rights.

The second principle asserts solidarity among the generations as being the basic concept in social protection.

The third principle extends the number of subjects performing social services through the involvement of non-governmental organisations, natural persons and corporate bodies.

The fourth principle upholds the role of the family and society in having joint responsibility for the safeguarding of people who are of an unequal status, one by focussing on transition toward individual work in each instance, as well as by a co-ordination of the help from various organisations, church communities, voluntary associations, etc.

This philosophy is imbued in the special **new legislation**: the Law on Social Aid (adopted by the National Assembly in May 1998) and the Law on Child Protection (June 2000). A Draft-Law on Family Allowances for Children and a Draft-Law on the Protection, Rehabilitation and Social Integration of Persons with Injuries have passed a first reading in the National Assembly.

The publication of the Law on Social Aid was followed by the working out of Regulations for its application, which called for a new strategy in the management of the system of social aid. This strategy embraces the following **basic trends**:

National and District Social Aid Services have already been set up. They ensure social assistance and provide social services and information to the public. Municipal social-aid services are operative in all municipalities of the country.

The licensing of natural persons, and also of non-governmental organisations providing social services, must be done by the Ministry of Labour and Social Policy.

Social Councils have been set up in the municipalities for co-operation and assistance in the practical aspects of social aid. These Councils are also meant to be guarantors for transparency in the work effected, as well as being means of democratisation of society.

Notwithstanding the ideals of this new philosophy in helping people who are in an unequitable position, in practice the poverty of the state does not offer adequate conditions for its application in real life. The arguments in reaching this conclusion are the facts themselves. There has been a steady increase in the contingent of those in need of social aid, matched by a real drop in the number of those helped. A total of 2,178 people less have received aid during the first six months of the current year under the Regulations for the Application of the Law on Social Aid, compared to the same period last year. The number of disabled people helped is also smaller – by 5,894 people. The system of social aid has not yet been able to extricate itself from its shortcoming of paying relief in arrears: 34 % of the sums paid in the year 2000 are for rights acquired in earlier periods. The delay in these payments (at times for months) is due to the chronic shortage of funds in the budgets of the respective municipalities.

The lack of sufficient financial means also leads to the impossibility of co-ordinating the social relief policy with the new philosophy adopted. The state-guaranteed minimum income of 37.30 leva a month, which is at the same time the upper limit for acquiring rights for social relief, is an extremely low amount which artificially maintains a low contingent of people

entitled to aid. The Government has had to adopt a new and higher figure for this basic value of social aid, but existing financial estimates show that the increase will only be a small one (2.70 leva) to come into effect at the beginning of 2001. Obviously, this fact will not lead to a more efficient realisation of the otherwise well-intended new philosophy underlying the reformation of the system of social aid in the next two or three years.

The size of the monthly allowances for children, which are still paid under the Decree for Promoting the Birth Rate of 1956, has remained unchanged for many years (8.56 leva), meaning its reason for being, to stimulate and encourage higher birth-rates, has all but vanished. Two alternative approaches have been subject to public debate during this period, namely, the paymake of such allowances for all children or the linking of them to the income of the particular household. In other words, not all households would receive such allowances, but those which did acquire them would receive them in higher amounts. In the final account, preference went to the first approach for universal application of the Law in relation to all children, regardless of the income status of the family. The Draft-Law on Family Allowances for children stipulated a new amount of allowance (16 leva). The law was expected to come into force on June 1, 1999, but it still awaits (discussions at) a second reading in Parliament.

Bearing in mind the difficult conditions for social relief during this period of reform adaptation, the Confederation of Independent Trade Unions in Bulgaria has put forward **special initiatives** for alleviating the problems in this area, namely:

- (1) To set up commissions in the district centres of the country with social experts from the municipalities, from the regional centres for social services, the Confederation of Independent Trade Unions, the Social Women's Parliament and other non-political organisations, whose task it will be to visit the social institutions for children in the region and to report on their conditions.
- (2) The Ministry of Labour and Social Policy, the Confederation of Independent Trade Unions, the Employers' Unions, the National Centre for Social Rehabilitation, and the Rehabilitation and Social Integration Fund shall adopt prompt measures and a programme for securing employment for the disabled.
- (3) To pool efforts from the social partners for the better utilisation of funds released for social projects. Operation within teams of social experts will lead to better results in raising the quality of the services themselves.

3 Education and employment

3.1 Reform of the educational system

The national educational system includes the subsystems of pre-school training and of primary, secondary and higher education. According to the Law on National Education of 1991 and the amendments to it of 1998, the overall structural model of secondary education includes a four-year initial school, a four-year pro-gymnasium, and a four-year gymnasium (high school). The system of vocational training corresponds to this 4+4+4 structure. Reforming the educational system involved also the structure of the school curriculum, which now includes obligatory, obligatory-selective, and freely selective training.

A general education in Bulgaria includes primary and secondary education. Primary education is obligatory and involves two stages – initial and junior high-school. Secondary education constitutes one stage known as the gymnasium. Obligatory school age is between 7 and 16 years. This age-limit presupposes obligatory regular education of the student in school. Obligatory school age is not linked to completion of an educational degree.

The certificate for completion of primary education is issued on the basis of successful completion of training in the eighth grade. When a student reaches the age of 16 he or she can proceed directly into the labour market, or can join the various forms of uninterrupted vocational training.

During the 1999-2000 school year, secondary education was been obtained after successful completion of the last grade of secondary school and after successfully passing written examinations in Bulgarian language and literature, in social sciences and civic education, and on one other subject under the school curriculum.

The types of schools included in general secondary education are as follows:

- secondary general-education schools from 1st to 12th grades. Many of them offer special-profile or vocationally oriented programmes;
- high schools (gymnasiums) – from 9th to 12th grades inclusive;
- special-profile high schools of 8th to 12th grade inclusive. The profiles comprise foreign languages, mathematics, arts, and other fields. They are widely regarded as elite schools and admission to them is on the basis of competitive examinations held at national level. The content and the conditions for holding these examinations are determined by the Ministry of Education and Science.

Within the system of secondary education there are state and private schools which must be duly licensed and their educational programmes approved by the Ministry of Education and Science. Education in state schools is free of charge, while private schools offer education with fees which, at this current time, are rather high for the ordinary Bulgarian citizen.

Higher education is undergoing reform mainly in respect of basic changes of the educational programmes and the introduction of selective subjects. The successful completion of higher education is documented in two degrees: bachelor and master of arts. Financing of the higher educational institutes has gone through many experiments and reforms during the last 10-year period. In the final account, a general trend has been established for this education to be paid for by the students. Tuition fees are paid each semester.

The system of vocational education and training embraces vocational orientation, vocational training and vocational education, under the Law on Vocational Training and Vocational Education of 1999.

After the completion of the educational reform, the system of vocational education offers a variety of opportunities:

- acquisition of vocational qualifications and secondary education within four years after completion of primary education and five years after successful completion of the 7th grade;
- acquisition of vocational qualifications after completion of secondary education;
- acquisition of vocational qualifications after completion of the 6th grade, parallel with completion of the primary education;
- acquisition only of vocational qualifications after completion of primary education.

Vocational education and training after completion of secondary education is organised under the Law on Vocational Education and Training and the Law on Higher Education of 1995, amended in 1999. Its duration is two years and takes place in vocational colleges or in existing technical colleges and vocational high schools. From the point of view of financing, these schools could be state-run, private, with foreign participation, or municipal. Private vocational colleges came into being on the basis of stipulations of the Law on National Education and Decree No. 9/29.12.1994 (amended in 1997) relative to private schools and kindergardens.

The economic realities in the country offer additional opportunities for securing the constitutional right of every citizen to select freely the type of school and the form of education he/she desires. Up to now a total of 20 private and 79 state-run vocational colleges for post-secondary training have been opened. They are mainly in the spheres of services, tourism and banking. The curriculum is oriented toward management and marketing, accountancy and finances, electronic processing, and some other fields. The establishment and development of vocational education after the secondary stage have been dominated by the idea of creating efficient opportunities for obtaining modern vocational qualifications as dictated by market requirements and individual preference.

According to the Law on Higher Education, vocational training in a college lasting three years is part of the system of higher education. These types of colleges are either part of universities or constitute independent institutions. Upon graduation from them the educational degree obtained is “Specialist in...” the following fields: medicine, technical and technological branches, pedagogy, tourism, library science, transport, telecommunications, agriculture, economics and management. What used to be known as “semi-higher institutes” were phased out of the educational system after the introduction of this type of college.

It may be said, as a whole, that the reforms within the system of education have been completed. Positive assessment may be given to the new academic plans and programmes with respect to their content, as well as to the setting up of a series of new forms of education and opportunities previously untried. However, the relative share of the unemployed under 24 years of age (16.4 %) to the total aggregate of unemployed is an indication that it is not easy for them to find their place under conditions of general stagnation of the market. The distribution of the unemployed young people indicates the highest relative share is taken by the group of registered unemployed who possess no particular speciality (65.9 %), followed by the unemployed with worker's speciality (19.7 %), and by the specialists (14,4 %).

3.2 Employment and active labour market policies

The disrupted equilibrium in the labour market during the last year is a result of increased input flow and of the structure of the new and unoccupied jobs offered. For instance, in July 2000 the number of unemployed who had the right to benefit was considerably higher than the number of unemployed in the input flux who did not have this right, a phenomenon which is very rare and is characteristic of the winter months. This is basically due to the laying-off of employees in three branches of the service sector, namely, State Administration, Education, and (basic) Health Services – connected with the reforms in the administrative, educational and health systems. Besides this, however, there also has been an increase in the number of people released (the newly registered unemployed) in the branches of industry, from both public and private sectors, this being an indication of the effects of a business climate deterioration.

The volume and structure of output flow are extremely unfavourable: the number of those leaving the Labour Bureau system has decreased, while in a structural cross-section there has also been a decrease in the relative share of those beginning to work. This signifies a further limitation in the Labour Bureau's effectiveness in finding work for the unemployed. The increased volume of funds for passive measures (payment of benefits and aid) restricts the possibility of carrying out a flexible active policy in the labour market.

A variety of **measures and programmes promoting employment** have been adopted at various periods during the transition. The most widespread among them are: aid for starting independent businesses, stimulation of mobility, subsidised employment, and part-time employment. Among the remaining measures we must mention are the traditional courses for improvement of skills and professional qualifications, programmes for the employment of young people, encouragement for the employment of the disabled, and training of the type "Aid for Self-Aid."

The following programmes are in operation at the present moment:

National programme for temporary employment – providing employment for five months in socially beneficial work.

Programme for securing temporary employment during winter months – providing temporary employment by opening additional workplaces with activities of general utility; mainly for groups of unemployed of unequal status – people on very low incomes, the long-term unemployed, etc.

Programme for securing employment through associations (for employment): provides temporary and alternative employment for up to 24 months and is applied in regions, industries and activities that are in the process of reconstruction, at the restoration and preparation of the establishments subject to privatisation, and at the realisation of projects for general use.

Programme "From Social Care to Employment": helps in providing access to the labour market, in motivating the unemployed to look for jobs, in vocational training, and in providing help to settle in a particular workplace.

Programme for literacy, for obtaining skills and for employment – designed for those unemployed in areas of ethnically mixed population. Its aim is to raise the quality characteristics of the unemployed and to provide appropriate employment for them.

Programme for support and encouragement of social initiative – through setting up of business consultation centres which render aid to the unemployed who want to start independent businesses.

In addition to these programmes, laws provide a variety of independent measures to encourage the unemployed and to stimulate the employers. With respect to the former are:

- The opportunity for the unemployed to receive, as a lump sum, the unemployment benefit due to them, thereby enabling them to start their independent economic activity, and to receive the vocational training needed to that end;
- The stimuli for help in the settlement in a different town or village with respect to a new employment position. The latter includes stimuli for employers to take on young people, men and women of reduced labour capacities, the long-term unemployed, certain risk groups, as well as other groups of unequal or inferior status.

A number of specialised programmes are currently running with financial support from international institutions and within the frameworks of bilateral agreements, as is the case with:

- Providing economic opportunities to women of the town of Devnya (jointly with the UN Development Programme);
- The Rapid Start Vocational Training – an US Agency for International Development and the US Department of Labour;
- The Regional Initiatives Fund (with a loan from the World Bank);
- "Beautiful Bulgaria" (on a bilateral basis).

On the whole, however, the active measures and programmes are not efficient in the labour market. They mainly create temporary work at a higher cost. In view of the deteriorating situation in the labour market during the last year the Government has introduced certain tax relief for employers, which will come into force at the beginning of 2001. The minimum expectations are that they will at least halt the negative trend of repealing jobs, to be followed by gradual and radical change in policies affecting the labour market, namely, to **create new, permanent, and promising jobs**. It is expected that a positive role will be played in this respect by the setting up of an economic and social council on a tripartite basis, which will also administer a specialised Social Investment Fund with the strategic objective of helping small and medium-size enterprises in creating new and lasting jobs.

Croatia

Professor Vlado Puljiz, Ph.D
Faculty of Law
University of Zagreb

January 2001

1	The development of the social situation in the last ten years	57
1.1	Political and economic background: independence, war and economic crisis	57
1.2	Development of income and poverty	59
1.3	Developments on the labour market	61
2	The reform of the system of social security	61
2.1	Health and health insurance	62
2.2	Pension schemes	64
2.3	Unemployment insurance and active labour market policies	66
2.4	Other social protection schemes	67
3	Education and employment	69
3.1	Reform of the educational system	69
3.2	Employment policy	70

1 The development of the social situation in the last ten years

1.1 Political and economic background: independence, war and economic crisis

In the socialist period, the social policy of Croatia was a kind of amalgam of the socialist and western model. Regarding the employment in the public sector, a social security system was developed, with certain categories of employees in the private sector (craftsmen and farmers) also having a right to social insurance, primarily old-age pensions and health insurance. However, obligatory social insurance was not sufficient to solve the increasing number of social problems in the country, so a social welfare system for the socially threatened population was established, as well as a network of social institutions for offering different sorts of services to the vulnerable social groups, primarily children and the elderly. Moreover, the public-owned companies themselves solved directly certain social problems of their employees and their families, so they represented a significant agent of social policy. Public companies, due to extensive employment, featured hidden redundant labour and low productivity. As a matter of fact, one of the major tasks of the socialist economy used to be the preservation of social peace and maintenance of the government's legitimacy. Owing to this, the state managed to achieve "patron security" and integration of employees into the ruling system, thus guaranteeing them relatively low wages and minimal social protection.

Social problems, however, accumulated and with time proved to be unsolvable by socialism and its social organisation scheme. At the economic and social level, socialism exhausted its development potentials right after the initial successes achieved with the modernisation of society. In other words, the socialist state could not secure accumulation and growth of the economy anymore, and accordingly, could not offer social security to its citizens. Therefore, it lost the mandate of governing the society. The tacit contract between the ruling elite and the general public fell apart, and the socialist system simply collapsed from within. (Puljiz, 1996).

In Croatia, the fall of socialism was related to the dramatic breakdown of the Yugoslav state union and the constitution of Croatia as an independent state during the Croatian Liberation War (1991-1995).

The basic values on which Croatian society is founded, those pertaining to a liberal democracy, are set out in the **Constitution** of the Republic of Croatia adopted in December 1990. Among other things, in Article 1, Paragraph 1 of the Constitution, Croatia is defined as a welfare state. Furthermore, in the chapter of the Constitution on economic, social and cultural rights, basic social rights are quoted which the state guarantees to Croatian citizens, and which are recorded in international documents such as the European Social Charter.

Unfortunately, Croatia did not have the chance to constitute itself and develop as a democratic and welfare state, instead in the period of 1991 – 1995 having to wage a difficult **war for independence**. The economic and social development of Croatia were thus in the past decade marked by the war for the creation of a national state on the one hand, and simultaneously, by a post-socialist transition to a market economy on the other.

The war in Croatia caused great human suffering, destruction of material goods, a decline in production, employment and standard of living. The war brought about a large number of

displaced persons, refugees and other victims of war such as the disabled, families of those killed, those gone missing and others. In the middle of 1992 Croatia was taking care of about 700 thousand displaced persons and refugees, nearly one sixth of its total population. At that time massive solidarity energies of the society articulated themselves in a collective effort to overcome the fatal challenge that Croatia was facing.

During the war, a post-socialist transition was carried out, at the centre of which stood the **privatisation** of public property. Privatisation essentially determined the social situation in Croatia. The crucial problem was that privatisation was happening in difficult war circumstances, when economic activities were considerably reduced and the market was very limited. Moreover, during the privatisation process quite a lot of abuses and irregularities occurred, planting a firm belief throughout the classes of the pauperised population that the game had been unfair, that is, that there had been an alliance of the new political and economic elites with the purpose of a redistribution of the national wealth in their favour.

Furthermore, privatisation was accompanied by a **dramatic decrease in employment** as well as a social stratification of the society. Decreased and uncertain employment led to considerably reduced financial transfers in the social security system, which resulted in the reducing of citizens' social rights. Briefly, the economic crisis caused severe unemployment and social stratification, threatening thus – by nature – the social security systems that became less generous and social rights that were reduced. As a result, in today's Croatian society one can notice dissatisfaction of the general public, who were made social and economic losers by war and privatisation. It primarily refers to displaced persons, refugees, returnees, the unemployed, pensioners and other pauperised social groups.

Politically, today's Croatia faces two opposite pressures. On the one hand, a portion of the population pauperised and struck by the war are calling for an intensified state intervention and redistribution of national income so that their social position, which they consider unfair, might be improved. On the other hand, the international community and the interior imperatives of economic development are imposing a need for a reduction of social costs, that is an increase in accumulation and investments. The most direct advocates of such an approach are private entrepreneurs, but also international financial institutions which stipulate that their loans will only follow a reduction of government costs and the creation of a more active market. In such contradictory and unfavourable circumstances, social reforms are being carried out and prepared, primarily those concerning old-age pensions and health insurance, policies of the poor, unemployed, family, education and so on.

In 1991, when the last census was carried out, Croatia had a **population** of 4,518 thousand people. Due to the war and migrations, the population in the country decreased and, according to demographic estimates, it totalled 4,224 thousand in 1998, which is 6.5 % less than in 1991. However, it was not only migrations that affected the decrease of the population but also the birth rate, which has been negative in the past decade. Thus, Croatia – regardless of the return of displaced persons and refugees or the settlement of the Croatian population from Bosnia and Herzegovina – is faced today with the problem of pronounced demographic recession (Akrap, Gelo, Grizelj, 1999).

In the past decade, the Croatian **gross domestic product** (GDP) fell considerably. The fall in gross domestic product was most drastic in the war years of 1991 and 1992. Actually, fall had already been recorded in 1989 (-1.6 %), and was followed in 1990 (-7.1 %), 1991 (-21.1 %) and 1992 (-11.7). In 1999, a fall in gross domestic product by 0.3 % was recorded, while in 2000 a 3 %-increase is expected. The estimated level of real GDP in 1999 is 4467 US\$ per capita, which is only 78 % of GDP in 1989 (Transition Report 2000).

These figures speak of deep changes which occurred in the Croatian economy and society. These changes were caused by large-scale destruction and a regression of economic activity due to the war. Furthermore, one should take into consideration the loss of the Yugoslav market as well as the markets of other former socialist countries, which had been very important for Croatia. Finally, the privatisation of public property is seen today as economically unsuccessful and socially unjust. All this led to a drastic deterioration in the economic and social situation.

1.2 Development of income and poverty

Croatia will reach the pre-war level of its national income only after two more years, and after that, in the process of approaching European integration, it will be reducing the lag behind developed countries.

Very important are the trends of personal income, primarily the **wages of the employed**. The salaries of the employed grew faster than the national income did. If the year 1994 is taken as the base-level of 100, then realistically the wages went up to 145.8 in 1995, to 163.0 in 1996, to 190.6 in 1997 and to 216.0 in 1998. A comparatively high increase in real wages is in contradiction to unemployment growth, so one can speak of some kind of dualisation of Croatian society. On one side, there are the employed whose standard of living, speaking in simplified terms, is rising, and on the other, there are the unemployed, pensioners and others whose social situation is getting worse. This simplified image is compounded by the considerable number of employed who do not receive their wages for months and are threatened by job losses. We are talking of more than 100 thousand people who are in the transitional state of uncertain, precarious employment.

In 1998, the average monthly salary, converted according to the official exchange rates, totalled DM 640, and according to available information, nearly DM 850 in the first six months of 2000. The fact that wages in Croatia, especially in the **public sector**, are comparatively high, is proved by continuous warnings from the World Bank, which analyses and in a way supervises economic trends in Croatia. According to the information submitted by the World Bank, in 1999 one fifth of all the employed (20.7 %), who worked in Croatia in the public sector, spent 11.5 % of the gross domestic product by way of wages. In comparison, in other transitional countries the share of wages for the same category totalled 3.6 %, and in developed European countries 5.3 % (World Bank, 2000.a:11). Unlike the public sector, in the **private sector** employment is falling, and the working conditions are more unfavourable and uncertain. After all, in the private sector the so-called grey economy has become quite widespread, which realises 26.5 % of the GDP (Bičanić, 1997). Therefore, jobs in the public sec-

tor, especially state administration and public services, appear today as an oasis of economic and social security.

The distribution of the employed regarding their level of net wages in early 1998 was as follows: up to HRK 1,400 – 15.2 %, HRK 1,400-2,000 – 24.8 %, HRK 2,000 – 2,600 – 23.7 %, HRK 2,600-3,200 – 18.2 %, HRK 3,200-3,800 – 5.7 % and above HRK 3,800 – 9.8 %.

One can, therefore, conclude that the differences in incomes within a category of employees have increased lately and that this points to the trend of social stratification. According to the findings presented in the publication of the World Bank "...the wages of badly paid workers (those receiving wages below the median) grew more slowly than the wages of better-paid workers. It is clear that the favourable effects of growth were not evenly distributed" (World Bank, 2000.a:18).

Wages themselves are not a sufficient indicator for an estimate of the distribution of income among different social classes. **Other sources of income** should also be taken into consideration. According to the research of the World Bank and State Bureau of Statistics, **Gini's coefficient**, showing the state of inequality, in a society totals 0.352 for Croatia. This coefficient is twice as high as in the Czech Republic (0.174) or Slovakia (0.168), but is lower than in Russia (over 4.0). In western countries Gini's coefficient varies from 0.2 and 0.4, and the USA has one of the highest (World Bank, 2000.b:27).

Surveys on receipts and payments of the population conducted each year by the Centre for Examination of the Market (CEMA) show that the majority of the interviewed households estimate they do not have a sufficient income for normal living. Thus 100 households covered by the 1993 survey stated they had an average income of DM 379, and that they needed DM 753 for living. The same information for the year 1995 quoted DM 843 as realised funds and DM 1,581 as funds needed, while in 1998, the realised sum was DM 1,017 and the sum needed 1,696 (Šućur, 1999.:349-355).

We can, therefore, conclude that the fall in economic activity in the past period has been accompanied by **strong differentiation processes** in the society and that today the differences in the economic and social status of Croatian citizens are considerably bigger than before the war. It has been said that this causes great frustration and dissatisfaction in those classes of society that could be qualified as losers, these primarily being the victims of war, unemployed, pensioners.

The new ruling coalition that came to power in January 2000 promised in the pre-election campaign a revision of the privatisation process. However, probably fearing that it might hinder the economic process as well as losing the trust of foreign investors, it has not undertaken any significant steps in this direction yet.

There are different data on poverty in Croatia. It seems that the most reliable data are the ones gathered from a survey of the State Bureau of Statistics and the World Bank in 1998 (World Bank, 2000.b.). The research was carried out on a sample consisting of 3123 households, but it did not include the Croatian regions occupied during the war. As the threshold of the so-called absolute poverty an amount of USD 4.30 per day per person was taken, converted ac-

cording to purchasing power. The research showed that in 1998 8.4 % of people in Croatia were poor according to this criterion. If the previously occupied regions are also taken into account, about 10 % of the total population is then below the threshold of **poverty**. On the basis of this, Croatia had the smallest share of poor population among the post-socialist countries, with the exception of Slovenia.

However, the appearance of great income inequalities, as well as an intense social differentiation, has led to the so-called "subjective" poverty. The study of the World Bank on poverty stresses that as many as 80 % of Croatian citizens believe they live below the level representing an acceptable minimum standard. This points to a very widespread dissatisfaction with the social status they have. Therefore, the comparatively optimistic data on absolute poverty is deceiving to some extent. The unemployed and poor make up a numerous category of excluded citizens in Croatia, who are not managing to find their place in the social division of labour. An unfavourable fact is that these are often young people, who are potentially the most creative and could contribute most to finding a way out of the present crisis.

1.3 Developments on the labour market

The economic crisis was reflected in unemployment trends. Unemployment problem had also existed in Croatia in the period of socialism, and was demonstrated most considerably in the second half of the sixties, when a lot of Croatian citizens left to search for jobs in western European countries, mainly West Germany. In 1990, Croatia had 161 thousand unemployed or 8.2 % of the total population. Five years later the number of unemployed amounted to 241 thousand or 14.5 %, and the average number of unemployed in the first eight months of the year 2000 totalled 352 thousand or 20.8 % (*Bilteni Državnog zavoda za zapošljavanje* – State Employment Agency Bulletins). This drastic increase in unemployment was mostly caused by the loss of jobs in the past decade. We are talking of registered unemployment.

However, since November 1996, Croatia has kept the employment record on the basis of the labour survey, which shows lower unemployment than recorded. It is a question of different definitions of employment. (In the labour survey, the category of the employed includes all persons who worked at least an hour in the reference week.) According to these data unemployment at the end of 1996 was 10.0 %; in June 1997 9.9 %; in the second term of the year 1998 11.6 %, and in the second term of 1999 14.6 %.

2 The reform of the system of social security

So far, we have mostly discussed the primary distribution of social welfare (goods and services) taking place in the market. In this section, greater importance is given to the secondary income distribution that the government performs through **social security systems**, such as the health care system, old-age pension system, protection of the family, unemployed, poor and so on. In this way the government redistributes income, corrects market deviations, regulates the overcoming of social risks, levels out opportunities and defines the level of general well-being in the society. It was only natural to expect that in the past decade, due to the economic crisis, a fall in personal income and unemployment growth, many socially threatened citizens tried to settle in the social security systems, primarily old-age pension system.

Information on social costs bears witness to the condition of the social security system in Croatia. According to World Bank sources, the social costs in Croatia in 1998 totalled 27 % of the gross domestic product. This covered health care by 7 %, pensions by 12 % and education by 3 %, while the remaining 5 % was used for other social needs (World Bank, 2000.a:IX). In the past two years pension and health expenditures have gone up, so social expenditure must have gone up to 30 % of the GDP by now. Some expenditures for the victims of war (displaced persons and refugees) are taken out of the mentioned social programmes. If they were also taken into account, social expenditure might even reach one third of the gross domestic product. Such **high social expenditure** can be justified as a consequence of war and post-war circumstances that imposed state intervention and an intensified secondary income distribution. In other words, the situation in Croatia favours Keynesian socio-statism, and the external circumstances and need for economic development imply an orientation towards the so-called Schumpeter state, where an increasing role is given to the market, and a diminishing one to the state. This means that the responsibility of citizens and their associations has increased in the social sphere.

2.1 Health and health insurance

A major social security system is health care. The Croatian health care system is in a critical condition. The funds allocated for the health care sector, although high in its proportion in the national income, are insufficient to cover increased costs. At the present time, health and medical services are below the expectations of the public, and therefore cause widespread citizens' dissatisfaction.

Croatia spends about 9 % of its gross domestic product on health care. Out of this, 7.2 % are funds from the health insurance fund, while the rest comes mainly from private and other sources. (This is where this information differs from the earlier information on health expenditure, which refers only to state financing.) This is higher than relative share of funds spent on health care in other transitional countries of Central and Eastern Europe. Health care is marked by a high external payments deficit which, according to World Bank data, totalled HRK 3.76 billion or 2.7 % of the GDP at the end of 1998 (World Bank, 2000.a:31). Health care is financed through a contribution of 9 % paid by the employer and a contribution of 9 % paid by the employee. The total contribution amount is 18 % of the gross salary.

The problems with the **financing** of health care as well as old-age pension insurance have been caused by a decrease in the number of employed and the increasingly difficult collection of health insurance contributions. Difficulties in the financing of health care having been aggravated since 1995, coinciding with the post-war decline in foreign aid in the form of medications and other items. Foreign support to the Croatian health care system was rather generous during the war and covered the lack of domestic resources in the financing of health care.

Health insurance **beneficiaries** include all active beneficiaries, old-age and disability pension beneficiaries, those unemployed registered at the Employment Agency and other insured persons. A right to health insurance is also realised by the members of the insurance beneficiary's family. In Croatia, virtually the entire population, apart from some marginal groups, is covered by health care.

A right to health care refers to primary health care, specialised and counselling health care and hospital health care. Insurance beneficiaries also have a right to various aids, stomatological and prosthodontic services as well as medications whose costs are covered by the **health insurance**. Besides these, a right to health care implies allowances in the cases of sick leave, maternity leave and additional maternity leave, compensation for medical treatment-related travelling expenses, allowance for a new-born baby and for funeral expenses. Medical care accounts for three quarters of the total costs, out of which hospital treatment accounts for one half. About one fifth of the expenditure is spent on allowances, while the remaining funds are spent on other purposes (Ott, ed., 2000.:99).

Efforts are being made now to overcome the health care system crisis by a **health care reform**, planned with the support of the World Bank. A document on health care reform has been formulated which has not been adopted yet, but gives us insight to its main directions (World Bank, 2000.a). We will outline the conceptual and financial aspects of the health reform, neglecting the medical aspects, which typically constitute an important part of the plan.

The reform plans the abolition of the current way of **financing** health care almost exclusively from salaries with future financing to come **from three sources**.

- The first source of financing would be to have a decreased **contribution** rate of 10 % from wages (it has been 18 % so far). Such a reduced contribution rate will supposedly relieve the economy of burden, i.e. reduce labour costs. Contributions should secure a little less than 40 % of the funds needed for health care.
- The second source would be the **Budget**, out of which the health care of vulnerable social groups, such as children, the elderly, unemployed and non-insured citizens, would be financed. Moreover, the Budget would also finance the measures that fall into the category of public health care, medical prevention and health promotion campaigns. The Budget would provide the funds approximately equivalent to those collected through contributions from wages.
- The third source would be **additional medical insurance** which is, at least at the beginning, expected to provide up to 12 % of the needed funds. This would pay for those medical services not covered by compulsory health insurance. This source would also include the funds collected from participation fees paid by citizens, as well as the funds of territorial units, such as counties or towns, which would additionally finance the health care institutions in their region. Participation fees paid by citizens, counties and towns are expected to provide the funds in the amount of the additional health insurance.

An important reform tool is a list of medical services guaranteed by compulsory health insurance. For the rest of medical services, i.e. for a higher hospital standard, additional health insurance is planned, which will be paid for by citizens on an individual basis.

The **goal of this health reform** is for Croatia to come closer to the model of health care financing and organisation in the countries of the European Union. The competition between public and private health institutions will supposedly rationalise health care costs. Reduced contributions will cut down labour costs and increase the competitiveness of the Croatian economy in the world market. It is expected that after the reform has been completed, the in-

fluence of citizens on health care will be enhanced and the overall attitude of citizens towards health care will change. Health has to become a top priority which is maintained and promoted in all phases of life.

However, one should be aware of **certain negative consequences** of health care privatisation that, as a matter of fact, have shown up in some other countries. Namely, it is not quite certain that privatisation brings along rationalisation and lower medical expenses. Furthermore, private surgeries in public health institutions, as is the case at present, may lead to the erosion of public health care. In the extreme, privatisation of health care may cause hardly bearable differences in the ethically most sensitive domain of human existence- the right to life. It is sometimes believed that inequalities among people, brought about by the hierarchisation of health care, are not morally justified as it implies that the rich can afford a much better quality medical treatment than the poor. It is believed that this kind of inequality breaks an archetypal equality of people and that cracks open up leading to the destruction of the society (Parijs, 1999.) Such recollections in the face of health reform, which seem well-founded from the moral point of view, can be beaten by counter-arguments, do the rich not receive a far better health care already, in the form of the present – apparently egalitarian – health insurance system than the poor by the principle of St. Matthew, according to which the one who has more, also receives more of common goods? In other words, richer people have a better treatment in any case, so since this is how it is, it is much better if they pay for it themselves than if they take from the common good, and at the expense of the poor.

2.2 Pension schemes

The old-age pension system is, by its financial means, scope and interest of the population as well as the influence of retired people on the national political stage, the most important social security system.

The number of people insured through the old-age pension system went down from 1,968 thousand in 1990 to 1,406 thousand in 1999, i.e. down by 29 %. On the other hand, the number of pensioners went up from 656 thousand in 1990 to 1,018 thousand in 1999, i.e. by 54 %. The **pensioner dependence index** (ratio of pension insurance beneficiaries and retired people) was reduced in the past 10 years from 3.00 to 1.38. This index symbolises the entire Croatian pensioners' problem.

As for the level of pensions in relation to wages, in 1992, that is – in the middle of the war period, the share of an average pension to an average salary was 63.19 %, and in 1999 it went down to 38.37 %. This average does not include the pensions of the former officials of the Croatian Army and veterans of the Croatian Liberation War, which considerably exceed the average.

Due to a large number of pension beneficiaries and a fall in the national income, a growth has been recorded in the share of the total **pension expenditure** in the gross domestic product. This share of the GDP totalled 7.7 % in 1992 and 13.27 % in 1999. An important piece of information is that only 2/3 of the pensions are covered by the beneficiaries' contributions, while 1/3 of the pension costs has to be covered by the state through transfers from the Budget. The fall in pension contributions is not only caused by a reduced number of the em-

ployed, but also by the widespread phenomenon of the employees avoiding paying contributions. Furthermore, the pension funds receive an insignificant income from the former public-owned assets, which they received before the privatisation process.

Since the pensioners are well-organised and, being so numerous, carry a large number of votes and thus considerably affect election results, they exert a strong pressure on the government. A major dispute that pensioners' associations had with the government referred to the public debt to pensioners. Namely, in the war years the government changed by decrees the method of pension indexation, so they considerably lagged behind wages. According to various calculations this debt varies between DM 6 and 10 billion, which is a huge amount of money considering the Croatian situation. In the dispute with the government in May 1998, the constitutional court gave their verdict in favour of the pensioners, which additionally strengthened their position. They expect the return of the debt from the new government, the negotiations on which are under way.

There were attempts to change the difficult situation in the pension scheme with **two reforms** contained in the 1998 **Law on Pension Insurance**. The goal of the first reform was rearrangement and rationalisation of the existing system of inter-generation solidarity (pay-as-you-go), while the other reform contained in the same law anticipates the introduction of the second and third pillar of the obligatory and optional funded pension saving.

When talking of the **first**, so-called small-scale **pension reform**, the mentioned law prescribes a gradual passage to a later retirement age (for men from 60 to 65 and for women from 55 to 60 years). An important change is that, according to the new law, pensions are calculated on the basis of wages earned throughout life, and not only on the basis of the top 10 years as used to be the case. Furthermore, pension indexation is performed half according to the growth of the wages of the employed, and half according to the growth of prices. As for disability pensions, the definition of disability has been modified so that general and functional disability are differentiated. Simultaneously, the disability pension terms, which were rather flexible until recently, have been made stricter. The criteria for premature retirement have also been made stricter.

Some earlier institutes of solidarity within the pension scheme, such as a protective supplement on the minimum pensions and a supplement for help and care, have been abolished and transferred into the social welfare system. They are allocated here on the basis of a property qualification and not automatically as was the case in the pension system. Briefly, one can say that the first stage of pension reform was directed to the reduction of pension expenditure and the establishment of a more direct and transparent connection between paid contributions and pensions. The implementation of the law in 1999 was followed by an increased inflow of pensioners, as many wanted to retire under more favourable previous and transitional conditions. But in the year 2000, the inflow of new pensioners has been reduced several times.

While the first reform tried to rationalise the existing pension system, the **second reform** will bring a radical change to the system. Namely, a second pillar of compulsory personal pension saving will be introduced for insurance beneficiaries younger than 40, and optionally also for insurance beneficiaries aged between 40 and 50. It is planned that younger insurance beneficiaries should pay 5 % of the total of 21.5 % of the pension contribution into the second pillar

of pension saving. The contributions collected on personal pension accounts will be managed by special agencies which are expected to increase them through profitable investments. The goal of establishing the second pension pillar, the preparatory documents claim, is not only an increase in the insurance beneficiaries' pensions but also an increase in the total national savings needed for investments and economic growth in a country short of capital. A third pillar of voluntary pension saving is also being established, in which a right to pensions will be realised by those beneficiaries who make a decision in favour of it themselves. In this instance, richer social classes are mostly counted on. Furthermore, in the new system the first pillar of inter-generation solidarity is maintained for older categories of beneficiaries, but also as an essential share in the pensions of younger beneficiaries.

The introduction of the second and third pillar implies extensive institutional, administrative and financial preparations, which have not yet been carried out, so their introduction has been postponed until the year 2002. Furthermore, there is a severe problem with the so-called transitional cost of the reform implementation, which will supposedly amount to 1-1.5 % of the GDP. In professional circles, there has been quite **extensive criticism** as to the very feasibility of pension reform. Some critics warn that the assumption of an increase in national saving through the second pillar is not a reliable one. They warn of the underdeveloped financial market, the risks of this market for future pensioners, the high transitional costs and so on (*Revija za socijalnu politiku* – Social Policy Journal, 2-3/1998).

In any case Croatia has defined its pension reform. The first step has been made by the transformation of the current PAYG system, and it now stands before the **introduction of a multi-pillar system**, which will not only bring pension diversification, and an extension of the beneficiary's personal responsibility, but also pension risks as implied by the capital market.

Unfortunately, it should be said that pension reform has not attracted the expected attention of the Croatian public having been pushed aside by less significant events for the future of the society.

2.3 Unemployment insurance and active labour market policies

Previously we have discussed the number of unemployed, and here we will confine the subject to their social welfare. The total expenditure for the social welfare of the unemployed totalled 0.4 % of the GDP in 1998. These funds are collected through a contribution of 1.7 % from wages. In the case of losing a job, an (un)employed person has the right to an allowance. The right to an allowance can be realised after a 9 months' continuous working period or a 12 months' working period with interruptions in the previous 18 months. The **unemployment allowance** lasts for at least 78 days and at most 312 days if the insurance beneficiary has had 10 years of working experience. The right to an allowance can be prolonged in the case of sickness, pregnancy or professional training. The allowance level is determined according to the one's salary, and must be not lower than 20 % of the national average salary. The conditions for receiving the allowance were quite restrictive, so in the late 1990s the allowance received about 15 % of the total number of the unemployed. However, following the end of the C.L. war, employment offices saw the registration of a large number of demobilised veterans who had a right to unemployment allowance – under the 1996 Law on the rights of the

veterans of the Croatian Liberation War and their families. The share of the unemployed receiving allowances then rose to 20 %. In the year 2000 unemployment allowances have been received by 17 % of the registered number of unemployed, the lowest allowance being HRK 615.20 and the highest HRK 900.00 (*Bilteni Državnog zavoda za zapošljavanje* – State Employment Agency Bulletins). The unemployed, furthermore, have a right to health, old-age and disability pension insurance. When they lose the right to the allowance, they may apply for welfare.

An allowance and other forms of insurance of the unemployed belong to the so-called passive measures toward the unemployed. An **active policy** implies re-training, creating and offering jobs to the unemployed. The goal is to include the unemployed in the labour market. Such approaches in the overcoming of the unemployment problem are increasingly common all over the world. This is the so-called "work-fare"- the programmes in which Croatia also has certain, although scarce, experience. Namely, the Croatian Employment Agency which launched certain initiatives regarding public works in 1998 and 1999. Doing this, it animated local self-government units as well as the representatives of some institutions and associations from the area of social welfare. In these programmes 2,670 workers were employed, primarily oriented to utility, infrastructure and environment maintenance and social programmes. However, these programmes of employment in public work projects are of a very limited scope and as there are few funds for them, in the whole policy toward the unemployed they have stayed marginal and have not significantly changed the employment situation.

So, speaking of the policy towards the unemployed in Croatia, it can be said that it manages **very limited funds** and is **prevalently oriented to passive measures**. For an active policy, the state has to look for partners, beside the unemployed themselves, among local communities and non-government organisations.

2.4 Other social protection schemes

Social welfare is one of the major tools in the struggle against poverty. Social welfare can be given in the form of financial aid, in kind or as a service. In 1998 social welfare spent in Croatia totalled 0.4 % of the GDP, which can be considered a comparatively small expenditure. Social welfare means are taken from the Budget, and a right to welfare is given to all persons not having essential means for living, or meeting the additional requirements. Furthermore the social welfare system encompasses programmes of accommodation, care and education of socially threatened children, disabled and elderly people, on which twice as much money is spent as on social welfare itself.

The right to various forms of social welfare has been determined by the Law on Social Welfare, which came into effect at the beginning of 1998. During the war, in March 1993, the government adopted the **Social Programme** with the purpose of fulfilling the basic existence needs of the socially most threatened population. Apart from the government social welfare bodies, national and foreign non-government organisations also participated in the implementation of the Social Programme. Their help was primarily aimed at the victims of war. For evidence and aid control, social welfare centres used to issue social welfare identity cards which were given to the representatives of the beneficiary households. In March 1997 there

were 98.8 thousand social cards, and in the beneficiaries' households 219.9 thousand members used to live (Jurčević, 1999). It could be said that the Social Programme played a key role in the overcoming of a difficult social situation during the war.

The Social Programme, and also social cards, were abolished by the 1998 **Law on Social Welfare**. The new law put an emphasis on a greater individual and local community responsibility to solve social problems (principle of subsidiarity), planned the possibility of some form of social welfare privatisation, set up a framework for the co-operation between state and non-government organisations in the field of social welfare, introduced new institutes throughout the system and so on. Out of the total population of Croatia the share of welfare **beneficiaries** totalled 8.1 % in 1999. The most important form of social welfare is permanent support allowance, which was received by 1.7 % of the population in 1999. There are several other forms, mostly periodical and temporary benefits, as well as housing assistance.

The social welfare system represents the last social safety net for those who have not found their place in the labour market, nor met their needs in other social security systems. Social welfare is granted on the basis of a **means-test** and has a certain stigma attached to it. That is why a lot of people who normally need it do not want to ask for it. However, with regard to the fact that in the period to come the main social security systems, such as old-age pensions and health, will increasingly differentiate according to the beneficiary's contributions (meaning the solidarity level within the beneficiary's circle will go down) we can expect that an **increasing number** of people will apply for welfare. Regarding the numerous excluded population, Croatia will, simultaneously with an increase in the well-being level, have to **develop inclusion programmes**. These are programmes for overcoming poverty and exclusion, which are compatible with an active policy toward the unemployed, i.e. the "work-fare" programmes. In the new policy toward poverty important roles may be played by civil society organisations and the local community which is their natural framework of action. Changes in the Law on Social Welfare and the decentralisation of social services being prepared are expected to bring about the commencement of unused social resources in helping poor people.

Family policy is oriented to raising the standards of the family as a basic human community. It differs to an extent from the population policy, the purpose of which is to affect the reproduction of the population. The most significant tools of the family policy that the state has at its disposal are various allowances and tax benefits, services and leaves for childcare or care for other members of the family. Bearing in mind the combination of these three elements (money, service, time) one can envisage what type of family policy this is.

In the Constitution of the Republic of Croatia, special protection is guaranteed for the family, and is the protection of motherhood in material and other conditions for a worthy life and development of children. A number of laws contain different measures for the protection of the young and families. **Three fundamental documents** defining the family policy basics can be singled out. First, we should mention the National Programme of Demographic Development adopted in 1998 which includes many measures of support for the family, especially with the purpose of reversing the unfavourable trends in demographics. This document is very ambitious and in order to realise the measures proposed in it, large funds would be needed, which Croatia is incapable of allocating at present. That is why it represents rather a projection of wishes than a feasible programme. The second document is the Law on Family Relations

adopted in 1999. It brings along significant innovations with respect to legal relations within a family. The third document is the Law on Child's Allowance. Many questions related to the family policy are regulated by other laws, e.g. Labour Act. (Bortek-Knešaurek, Tursan, ed. 1999).

Child's allowance has attracted particular attention of the public, more than other family policy issues. The **new Law** on Child's Allowance was passed in 1998 and its implementation started as late as October 2000. The reason for the postponement lays in the finances supposed to be allocated in addition to previous money for the implementation of the new law to a larger number of children. Child's allowances were previously financed from the contributions of the employed at the rate of 2.20 % of their salaries, and they could only be received by the families of employees with a poor income. Child's allowances and other family supplements accounted for 1.4 % of the GDP. Last year child's allowances were received by 37 % of children, and the amounts were differentiated in accordance to the income scale and number of children in the family.

According to the new law, child's allowance can be received by all children regardless of the parents' employment, taking into consideration the material situation of the family. It is anticipated that this right will be realised by 55 % of children. The level of the child's allowance varies depending on the property qualification and number of children in the family. The method of financing the child's allowance is also being changed (*Revija za socijalnu politiku* – Social Policy Journal, 1/1999). Instead of being financed from the contributions from the salaries of the employed, it will be financed from the Budget, i.e. from taxes. **Considerably larger funds** will be allocated for the child's allowances than used to be the case, so the new government has postponed the implementation of the new law for 10 months. It is quite a significant social policy measure which influences the material position of the family.

The former, rightist government tried to achieve the retraditionalisation of the family. This can be seen in the National Programme of Demographic Development, which was an unrealistic project for increasing the birth rate and strengthening the traditional family. It may be supposed that, regardless of ideological differences in relation to the previous government, the new government, faced with a **negative demographic trend**, will be under constant pressure to stimulate the birth rate and give more generous support to families with children. Furthermore, new institutions for children will have to be opened, not only due to busy parents but also because of socialisation and pre-school education. Unlike other social policy systems, family policy will probably see an increase in the level of state intervention as it encompasses vital issue of population growth, which all states are very sensitive to.

3 Education and employment

3.1 Reform of the educational system

Education affects the levelling out of life opportunities and social mobility of the population. The social position of individuals and social groups depends largely on their educational level. Research, even the above-mentioned example from the World Bank and the State Bureau of Statistics, shows that educational status is affected mostly by poverty.

In Croatia, 8-year **elementary education**, starting at the age of 6 or 7 is compulsory. **Secondary school** is not compulsory, and at present 66 % of the corresponding age groups are enrolled there. It is a comparatively low percentage in relation to other countries, especially the highly developed ones where the rate of secondary school attendance averages 91 %. The average length of educational in Croatia is 11.2 years while in western countries it is 14.6 years. Croatia has a well-developed network of **higher (university) education** in which approximately 80 thousand students are enrolled. Besides this, there is specialised education for the handicapped population, as well as adult education. A significant number of citizens participates in informal education forms.

Elementary, secondary and higher education is financed from the Budget. The **total education funds** account for 3.4 % of the GDP, which is less than the European average. This is not enough for meeting the needs of the education system, for the renewal of the educational infrastructure or modernisation. The municipalities finance pre-school education in which about 30 % of children participate. However, regarding the differences in the development of certain regions, pre-school education is unevenly distributed, and in less developed municipalities problems arise over its financing. In higher education, help with the payment of schooling for those students poorly placed at the entrance exam lists has applied for several years now. Students accommodation and food are highly subsidised by the state.

In Croatia the **first private schools** have been opened. Some private schools are subsidised by the state and they have more autonomy. In the private education system it is possible to develop alternative programmes and stimulate creativity. Moreover, private schools relieve the pressure on the capacity of state schools.

In expert circles and in the general public, **debates** have been held lately **on strategies for further development of education**. It has thus been proposed to extend elementary education from eight years to nine. Apart from the changes in the curricula themselves and the modernisation of the education process, a gradual introduction of continuing education should be expected as a standard for the overall population. Furthermore, in accordance with the changes in the society, more private schools are expected, as well as a greater participation of citizens in the financing of education. Massive computerisation will change the technology of the education process, which is rather old-fashioned in Croatia. Generally, gradual de-institutionalisation, dispersion and individualisation of education may be expected. (Pastuović, 2000)

At this moment, it is not possible to undertake radical steps in education reform as there are insufficient funds. However, it is obvious that education will go through major changes in the following years which will, on one hand, follow the changes in society and economy and whilst, on the other, encouraging and directing them.

3.2 Employment policy

Croatia inherited the policy of **extensive employment** from its socialist predecessors. In the war circumstances and during the period of ownership transformation and privatisation of former socialist companies, to eradicate redundant labour the government relied largely on the

retirement institute. This led to an increase in the number of pensioners in relation to the number of employed. This strategy managed to relieve the shock of reduced employment.

However, the necessary redistribution of labour and transfer to new expansive economy sectors has slowed down. The increased needs in the financing of social security systems has caused greater burdens on labour while strict laws and regulations protecting the employed have increased the costs of entering and withdrawing from the labour market. **The current level of taxes** and contributions from gross salaries in Croatia totals about 45 %, while this share remains below 30 % in the transitional countries of Central and Eastern Europe and is even lower in the European Union countries. According to the estimates by economic experts and international financial institutions such as the World Bank, this is one of the stumbling block in the creation of new jobs. This also has led to an inappropriate thriving of the **non-formal economy sector**, which has reached the scope of one quarter of the national economy. Furthermore, in the formal sector of the economy itself informal payments of workers are widespread with the purpose of avoiding paying taxes and contributions. All this makes it more difficult for the government to collect the funds needed for the financing of public expenditure and endangers the functioning of the welfare state.

For a new employment promoting policy it is necessary to **reduce labour costs** and carry out **labour market deregulation**. This implies a larger-scale introduction of flexible labour forms, currently expanding in European countries. With this purpose the government adopted the national employment policy at the beginning of 1998, which advocates the liberalisation, flexibilisation and removal of government controls of the labour market. The reduction of labour costs are particularly insisted on. (*Revija za socijalnu politiku* – Social Policy Journal, 1/1998.). However, due to a fiscal state crisis little has been done towards the implementation of this document.

Croatia inherited the system of large companies, which are inert, unproductive and poorly innovative. The development of small and medium companies, which could make growth more dynamic and modify the economic structure, lags behind due to the unfavourable socio-economic environment, high taxes and non-stimulative loan terms. One should also add here that Croatia has a lower rate of self-employment from agriculture than countries, such as Hungary, Poland or the Czech Republic.

These few remarks on employment policy point to the likely character of future measures (possibly) to be undertaken by the new government in the employment field. The available indicators speak in favour of the thesis that the policy of cutting labour costs, redistributing the fiscal burden from companies to citizens and the flexibilisation and deregulation of labour market will be carried out. This will, of course, have significant **consequences on the social security system**, where more and more privatisation and marketing elements will be introduced.

Selected references

Akrap, A., Gelo J., Grizelj M. (1999): Broj prisutnog stanovništva Republike Hrvatske i županija po dobi i spolu od popisa stanovništva 1991. do 1998. godine, Društvena istraživanja 43-44, pp. 679-724.

Bičanić, I. (1997): Mjerenje veličina i promjena neslužbenog gospodarstva, Financijska praksa 1-2, pp. 15-28.

Bilteni Državnog zavoda za zapošljavanje, Zagreb.

Bortek-Knešaurek, Š., Tursan, N. (1999): Obitelj u suvremenom društvu, Državni zavod za zaštitu obitelji, materinstva i mladeži, Zagreb.

European Bank for Reconstruction and Development (2000): Transition Report 2000. Employment, skills and transition, London.

Jurčević, Ž. (1999): Socijalna skrb u Hrvatskoj 1998, Revija za socijalnu politiku 2, pp. 133-146.

Nacionalna politika zapošljavanja (1999): Revija za socijalnu politiku 1, pp. 35-42.

Obrazloženje Konačnog prijedloga zakona o doplatku za djecu (1999): Revija za socijalnu politiku 1, pp. 45-54.

Okrugli stol: Mirovinska reforma: izazovi novog sustava na tri oslonca (1998): Revija za socijalnu politiku 2-3/1998.

Ott, K. (ed.) (1999): Javne financije u Hrvatskoj, Institut za javne financije, Zagreb.

Pastuović, N. (2000): Odgoj i obrazovanje, Nacrt strategije razvitka, manuscript.

Parijs, Ph. (1999): Refonder la solidarité. Editions le Serf, Paris.

Puljiz, V. (1996): Trendovi u socijalnoj politici Hrvatske, Revija za socijalnu politiku 3-4, pp. 273-284.

Statistički ljetopis (1999): Državni zavod za statistiku, Zagreb.

Svjetska banka, Odjel za Hrvatsku i Albaniju (2000.a): Programme mjera za gospodarsku reformu i rast, Washington.

Svjetska banka (2000.b): Hrvatska. Studija o ekonomskoj ranjivosti i socijalnom blagostanju, Washington.

Šućur, Z. (1999): Prihodi i troškovi kućanstava u Hrvatskoj, Revija za socijalnu politiku 3-4, pp. 349-353.

Appendix

Review of the social situation and social reforms in Croatia

1. Indicators of the social situation

Population

Present population (1998)	4,224 thousand
Average age (1998)	39.2 years
Average life expectancy	72 years
Percentage of population aged 0-14 (1998)	17.5 %
Percentage of population aged 65 and older (1998)	15.5 %
General fertility rate (1999)	1.38
Average level of education of employed (1998)	11.2 years

Economy

Real GDP per capita 1999 (estimate)	USD 4,467
1999 GDP index (1989 = 100)	78
Expected GDP growth in 2000	3.0 %
Inflation rate (1999)	4.0 %
Share of non-formal economy in GDP (1995)	26.5 %
Average wages in the first half of 2000	USD 360
Share of social expenditure in GDP (1999 estimate)	30 %

Pension scheme

Pensioners	1,018 thousand
Pension insurance beneficiaries	1,406 thousand
Dependence index (insurance beneficiaries/pensioners)	1.38
Pensioners' average age	64
Share of pensions in GDP (1999)	13.27 %
Budget share in pension fund expenditures (1999)	33.19 %

Ratio of an average pension to an average salary – with the exception of Croatian soldiers' pensions	38.37 %
------------------------------------------------------------------------------------------------------	---------

Health care system

Share of health care costs in GDP (1999)	9 %
Infants' death rate per 1000 of the live-born	8.0
Patients per doctor (1996)	440

Unemployment

Share of expenditure for the protection of the unemployed in GDP	0.4 %
Official unemployment rate (2000)	20.8 %
Unemployment according to labour survey (1999)	14.6 %
Employment estimate in non-formal economy (1995)	25.7 %
Unemployment allowance range (1999)	HRK 615-900

Poverty

Poverty rate (USD 4.3 per capita daily) (1998)	10 %
Gini's inequality coefficient (1998)	0.352
Social welfare expenditure in GDP	0.4 %
Share of population on continuous welfare	1.7 %
Law-defined level of monthly welfare per person	HRK 365

2. Social policy reforms**Pension system (1998):**

Reform of the existing PAYG system because of rationalisation and cost control as well as because of a closer connection between paid contributions and pensions (in place since 1999).

Adoption of the second pillar of funded pension saving (implementation postponed until 2002).

Adoption of the third pillar of voluntary pension saving (implementation postponed until 2002).

A trend of a strengthening of individual responsibility for pensions and commensurate reduction in state costs is expected.

Health care (reform project):

three sources of financing (contributions, the Budget, citizens and local self-government);
a compulsory and additional health service package;
partial health care privatisation.

A strengthening of prevention programmes and realisation of a health promotion strategy is expected.

Social welfare (1998 Law):

A strengthening of the principles of implementation of subsidiarity and targeting of social welfare.

Broader opportunities for social service privatisation (care for children and the elderly).

An increased role of civil society (humanitarian organisations) in social welfare.

Decentralisation of social welfare system is expected.

Family policy (1999 Law):

Extending the right to child's allowance to the categories out of the employed population (the unemployed, farmers and others), but maintaining the property qualification.

An increased state intervention is expected in family policy in order to improve demographic trends.

Policy toward the unemployed:

- 1998 failed attempt to introduce active policy measures;
- gradual reduction of percentage of the unemployed receiving allowances.

Reversal of the trend is expected toward an active policy (work-fare), deregulation and flexibility of employment.

Education policy (reform project):

- introduction of 9-year elementary education (now 8-year);
- gradual education privatisation;
- expansion of continuing education.

Kosovo

Ardian Jashari
Business Consultant

December 2000

1	The development of the social situation	77
1.1	Economic and social background	77
1.2	The social situation before 1989	78
1.3	The development of the social situation in the last ten years	79
1.4	The current social situation in Kosovo	80
2	The reform of the system of social security	82
2.1	Health and health insurance	83
2.2	Pensions schemes	83
2.3	Unemployment insurance	84
2.4	Other social protection schemes and services	84
3	Education and employment	85
3.1	Reform of the educational system	85
3.2	Employment and labour market policies	87
4	Conclusions	88

1 The development of the social situation

1.1 Economic and social background

Kosovo borders Albania, Serbia, Montenegro and Macedonia. It covers an area of approximately 11,000 km². Pristina, the capital of Kosovo, is connected by roads to all four capitals of neighbouring countries, i.e. Tirana, Belgrade, Podgorica and Skopje.

The **population of Kosovo** in 2000, according to the Statistical Office of Kosovo, was estimated at nearly 2.2 million people, of which ¼ live in Pristina. The ethnic composition of Kosovo is dominated by Albanians (82%), with significant minorities of ethnic Serbs (10%) and others (8%)¹. Due to the time changes encountered since the last census and the 'Kosovo Crisis' the demographics of the region have certainly changed but the present make up is unclear and it is also difficult to identify any long term patterns.

Table 1: Selected Economic and Social Data – Kosovo, 2000	
Area:	11,000 square kilometres
Population:	2.2 million
Ethnic composition:	Albanian – 82 percent Serb – 10 percent Others (Montenegrins, Muslims, Roma, Turks) – 8 percent
Life expectancy at birth:	69.8 years (males); 76.6 years (females)
Total fertility rate:	3.2 births
GDP per head:	US \$400
Share of key sectors:	Industry – 33.8 percent Agriculture – 28.8 percent Other – 37.4 percent
Natural Resources:	Lead, zinc, nickel, coal, magnesium, lignite, kaolin, quartz, asbestos, limestone, marble, chrome, bauxite
Major Industries:	Metallurgy, electric power, textiles Nandicrafts, agriculture, construction
Source: World Bank Calculations, 1999	

The **economic structure** of the region is dominated by small privately owned enterprises that mainly operate in manufacturing and retail / trade. The industrial structure is diverse but with particular concentrations in extraction and primary processing, dairy and food / soft drink manufacture / production, textiles and construction². Throughout the 90's the region appears

1 Estimates of Albanian Scholars (Limani, 1992) in "Demography of Kosovo before the War" by Arjan Gjonca, 1999.

2 "The World-Wide Albanian Homepage." <<http://www.albanian.com>>.

to have had a depressed economic and social status compounded by the transition to a free market economy. This **transition process** led to wide scale industrial restructuring, especially amongst large and medium-sized enterprises, and resulted in a substantial number of redundancies.

Social protection and development in Kosovo in the past consist of a combination of self-financed funds and funds provided by the budget of former Yugoslavia. "Kosovo has an organised system and structure of public institutions and solid fiscal instruments for social development financing."³

1.2 The social situation before 1989

During the period prior to 1989, **social protection programmes** for Kosovo were designed by the province's assembly in conjunction with the legislature of the former Federal Republic of Yugoslavia. From 1974 to 1989, social protection in Kosovo was provided in the form of pensions and unemployment benefits, child allowance as well as social help for those households with no resources⁴.

In 1988, 248 thousand active people were socially protected, 58 thousand were eligible to pensions and disability allowance, 19 thousand benefited through temporary unemployment benefits and another 953 thousand were eligible for social protection as members of households with no resources⁵.

During this period prior to 1989, the economic development of Kosovo was much lower in comparison with the other regions of the former Yugoslavia or other developed regions of the world. The development level of Kosovo in 1988 was lower than half the level of the undeveloped former Yugoslav regions and considerably lower than the economic level of the developed former Yugoslav regions. More precisely Kosovo's economic development level was 22.3 % of the level of Vojvodina, 21.3 % of the level of Croatia and 12.1 % of that of Slovenia.⁶

However, in 1989 with the suspension of Kosovar Albanians from their jobs, Kosovar legislation programmes were controlled by the Serbian social protection system, which was directed from Belgrade. This set the stage for many discriminatory practices against ethnic Albanians. The suspended Kosovar Albanian workers were replaced immediately by Serbs. Becoming unemployed meant losing all employment benefits for many Kosovar Albanians including pensions, unemployment benefits, child allowance and social help for those households with

³ Economic Activities and Democratic Development of Kosovo – Report on Research Project Outcomes. Riinvest, Second Edition, Prishtina, September 1998.

⁴ For a more detailed discussion see *Kosovo – Economic and Social Reforms for Peace and Reconciliation*. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

⁵ Data from Statistical Annual of Kosovo 1989 (*Vjetari Statistikor i Kosovës 1989*). Statistical Unit of Kosovo. Prishtina, December 1989. (Please see the Annex)

⁶ Economic Activities and Democratic Development of Kosovo – Report on Research Project Outcomes. Riinvest, Second Edition, Prishtina, September 1998.

no resources⁷. The **low levels of social development** in Kosovo in 1989 are best illustrated by the so-called indicators of social development used by the Yugoslav government. These indicators show that in 1989, Kosovo's unemployment level was 38.4 % compared to 15.9 % for the former Yugoslavia.

Table 2: The development level of Kosovo in former Yugoslavia in 1988

Regions of former Yugoslavia	National product per capita (US \$)	Relative position (%)
Kosovo	700	27.8
Macedonia	1536	60.9
Bosnia & Herzegovina	1655	65.7
Montenegro	1827	72.5
Serbia	2285	90.7
Vojvodina	3134	124.4
Croatia	3280	130.2
Slovenia	5779	229.3
Undeveloped	1440	57.1
Developed	3194	126.7
Former Yugoslavia	2520	100

Source: Riinvest, Prishtina, September 1998

1.3 The development of the social situation in the last ten years

During this period of **exclusion of Kosovar Albanians** from economic and social life which lasted for a decade starting in 1989, basic social protection for most of them consisted of allowances received either from family members living in the Diaspora or humanitarian assistance. The main local humanitarian assistance providers in Kosovo were local charity organisations, such as the Mother Teresa Society financed by international and local organisations and donors and managed by local volunteers.

This period was characterised by an administration controlled by the minority Serbian population, which came as a result of the dismissal of 70 % of Albanian employees from their jobs in different public sector fields, such as economics, health care, information, science, law, culture, etc. All of this was followed by a destruction of financial, health and educational institutions in Kosovo, thus destroying the economic sovereignty of Kosovo. The **major effects** and reflections of this situation can be summarised as follows:

- a drastic reduction in national production levels and industrial activity;
- cessation of investments;
- mismanagement of public enterprises;

⁷ Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

- a loss of foreign markets and decreasing export;
- a blockade of financial institutions and the banking system.⁸

The consequences of these effects became evident in the following years. In 1995, Kosovo's national product and national product per capita levels were the lowest in comparison with the surrounding countries.⁹

Table 3: The development level of Kosovo in comparison with other countries in 1995		
Countries	National product per capita (US \$)	Relative position (%)
Kosovo	340	0.7
Albania	380	1.3
Bulgaria	1250	10.5
Greece	7700	80.1
Croatia	2560	12.3
Serbia & Montenegro	1500	15.7
Macedonia	820	1.8
Rumania	1270	28.8
Slovenia	7040	14.4
Turkey	2500	15.2
Source: Riinvest, Prishtina, September 1998		

1.4 The current social situation in Kosovo

Reliable social and demographic indicators have been scarce in Kosovo since the early 90s and continue to be scarce at the beginning of the new millennium as well. The **absence of these social indicators** hampers the rehabilitation efforts being undertaken by the international community in Kosovo. All agencies, institutions and organisations involved in humanitarian aid and development programs are experiencing difficulties in setting priorities and planning for the evaluation of their programmes. Furthermore, it is difficult to track population mobility as Kosovo slowly recovers from the very difficult war period.

"There is an urgent need to better assess the status of the population of Kosovo and to evaluate some basic demographic, social, and reproductive health indicators."¹ On this matter, the International Organisation for Migration (IOM) and the United Nations Population Fund (UNFPA) jointly organised a preliminary mission to assess the feasibility of a **cluster sample**

⁸ Economic Activities and Democratic Development of Kosova – Report on Research Project Outcomes. Riinvest, Second Edition, Prishtina, September 1998.

⁹ Economic Activities and Democratic Development of Kosova – Report on Research Project Outcomes. Riinvest, Second Edition, Prishtina, September 1998.

population survey in Kosovo and conducted a survey based on a sample of around 8000 households in 1999 and 2000. This survey was conducted in close co-ordination with the Kosovo Statistical Office. The results of this population survey were made available to the United Nations Mission in Kosovo (UNMIK), other agencies, non-governmental organisations (NGOs), interested parties and the public¹⁰.

Based on this population survey, several socio-economic characteristics can be summarised. The unemployment rate for Kosovo was estimated at 50 %, of which 43 % was in urban areas and 57 % in rural areas. **Unemployment** among women was estimated at 53 %. In total, 33 % of Kosovo's surveyed population is active and 62 % of the surveyed population is of working age¹¹ (see Tables and Charts in the Annex for more information on the survey results).

Currently, the social situation in Kosovo is characterised by **many families being** socially **dependent on social assistance** or humanitarian aid. Many Kosovars lack basic housing, clothing, and other daily necessities. In September 1999, approximately 850,000 people received some kind of social assistance from the Mother Teresa Society in Kosovo.¹²

In addition to the substantial help in-kind being provided by the various humanitarian organisations, there is an unknown flow of funds from family members outside Kosovo, and many households receive regular stipends paid to public sector workers (who total around 70,000). In addition, **informal economic activity** is thriving. All of this suggests that the number of people without insufficient cash incomes is likely to stabilise during 2000, but will remain high for some time to come.¹³

The UNMIK administration in Kosovo has been involved in social protection policy-making by implementing an interim social assistance program. This **interim social assistance programme** was designed by UNMIK in collaboration with local centres of social work and non-governmental organisations and was implemented during the emergency phase between November 1999 and May 2000. Since May 2000, this programme has been administered by local centres of social work. However, this programme does not include social insurance programs – pensions, child allowances, nor does it include unemployment benefits. All this is due to the lack of current tax collection.¹⁴

¹⁰ "Kosovo Demographic, Socio-Economic and Reproductive Health Survey." International Organization for Migration – Mission in Kosovo, Prishtina, May 2000.

¹¹ "Kosovo Demographic, Socio-Economic and Reproductive Health Survey." International Organization for Migration – Mission in Kosovo, Prishtina, May 2000.

¹² Mother Teresa Charity Society, a local humanitarian assistance foundation.

¹³ Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

¹⁴ Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

Table 4: Staff engaged in social protection in Kosovo in 1999				
	Staff Numbers			
	Professional / Directors	Middle Band	Support	Total
Pension Centres	18	290	25	333
Family Allowance Centres	7	115	10	132
Centres for Social Work	385	100	40	525
Special Institutions	60	120	60	240
Employment Service	35	245	120	400
Total	505	870	255	1,630

Source: World Bank Calculations, 1999

The total number of people working in social protection in Kosovo in 1999 was estimated to be around 1630, of which 505 were employed at the professional level, 870 at the middle band level and 255 at the support level.¹⁵ These employees were employed in several institutions including pension centres, family allowance centres, centres for social work, special institutions and employment service centres. In 2000, UNMIK funds destined for social protection allowed for stipends to 779 social protection staff members, of which 165 were from Employment Service and most of the remaining 614 from Centres for Social Work.

2 The reform of the system of social security

The social protection system in Kosovo before the conflict included the following components: health insurance, pensions schemes, unemployment benefit, child allowance, social help in the form of cash payments and several other social services. The above-mentioned system was financed by employees and employers through their monthly contributions. Part of the system was also financed through the Fund for Undeveloped Regions within Yugoslavia where Kosovo was a major beneficiary because of its low living standards compared to the rest of the former Yugoslav regions.

Reforms to the social protection system of Kosovo are being considered and are viewed as important components of the economic transformation process. Such reforms are inevitable in Kosovo given the change of direction of the local economy with the temporary commercialisation of public enterprises currently in effect and the transformation of publicly owned enterprises into private ownership to take place in the near future.

¹⁵ World Bank Calculations, 1999.

2.1 Health and health insurance

Before 1989, the Kosovar health system was financed by a **health insurance fund (HIF)** organised throughout Kosovo and administered by a central office in Pristina. This health insurance system provided insurance for health care and cash benefits incurred by sick leave, disability, funeral benefits, eyeglasses prescriptions, orthopaedic devices, etc. to people who paid insurance contributions and their family members. Health insurance funds were raised from employer and employee contributions calculated as 9 % of gross salary. **After 1990**, the system of health insurance became even more centralised and was transferred from Pristina to Belgrade. Regional offices in Kosovo were responsible for collecting contributions, keeping 70 % while the rest was to be sent to the central office in Belgrade. Local perception was that all the revenue went to Belgrade and the redistribution of it was not therefore transparent. The health insurance system discriminated ethnic Albanians by limiting their coverage under the centralised health insurance system and by dismissing many from top management and senior positions in the health system.

After 1990, the **Mother Theresa Society** organised a primary health care system to provide **basic health services** free of charge to those unable to afford medical care and unable to get social insurance. With volunteer staff, the MTS opened 96 clinics with additional resources financed through a parallel tax system.

Today, the UNMIK Department of Health and Social Welfare has the responsibility for organising and delivering health services. This department works closely with the World Health Organisation (WHO) from whom they get their main advice and assistance. The UNMIK Central Fiscal Authority from the Kosovo Consolidated Budget currently finances health services in Kosovo. Currently, the **main problem** facing Kosovo's health system is the **financing of health care** services. Presently, this is being done through donors. Donor presence in the region is unpredictable, therefore making the future unpredictable as well.

The **Interim Health Policy Guidelines** set by the UNMIK Department of Health and Social Welfare indicate that there is a preference to restore the compulsory health insurance contributions system. This means the pre-1990 system would be restored but with improved transparency and efficiency. This health care system would be financed through compulsory tax contributions to health insurance funds, which could be partly supplemented by revenue from general governmental budgets. However, the health insurance program for Kosovo seems unrealistic in the near term because of the lack of payroll tax deductions, making the only solution to finance from the consolidated Kosovo budget with some use of patient fees.

2.2 Pensions schemes

The **pre-conflict pension scheme** of Kosovo included old-age pensions with retirement provisions, invalidity and survivor pensions and disability allowances. During the 1990s only a small proportion of Kosovo's population was included in the scheme, most of whom were employed in the state sector. This is due to the labour market exclusion of Kosovar Albanians from the former Yugoslav pension schemes because they had failed to build up history profiles during the 1990s. This system was administered by several regional offices for pension funds. Less than a quarter of people over retirement old-age received a pension. The last pay-

ment was made in February 1999 with 32,511 receiving an age pension, 27,403 receiving an invalidity pensions, 27,664 receiving survivor pension and 10,550 receiving a disability pension¹⁶.

Currently, this system is considered **to be generous** when compared to other transition countries' systems and Western standards. This is the main reason why it has taken a considerable time of discussion and analysis before the pensions system is either reinstated, implemented or excluded from the social protection program of Kosovo.

2.3 Unemployment insurance

Unemployment benefit was provided to an unemployed individual based on a means test and on his/her record of contribution over the years. Employment Service centres all over Kosovo administered this program through their regional offices and branches where they also provided a range of active labour market programs.

Unemployment benefits of the current structure and coverage are not typical in a modern economy. In Kosovo, this issue will have to wait at least two to three years because of the high numbers of unemployed people and the inability to finance such coverage for all of them. Therefore, restarting unemployment benefit payments is unrealistic in the near term.

2.4 Other social protection schemes and services

Child allowances were payable also based on a means test and were targeted towards low income working people. Discrimination and exclusion of ethnic Albanians was prevalent also in this scheme during the 1990s. Eligibility criteria stating that only households with children in Serbian language schools were entitled to child allowances and limits on the number of children that could be counted for the purposes of performing means-testing were two of the main ways that provided the basis for discrimination against ethnic Kosovar Albanians.

This system is also somewhat unusual for Western standard countries. However, within the local structure it may be that child allowances are needed. For this reason, current feasibility studies are being conducted in this area to determine the ability of the social protection schemes to maintain multiple programs and to analyse whether these programmes are currently needed in Kosovo or not.

Cash payments as a form of social help were provided to people unable to work on a regular or temporary basis. Payments were given on a temporary basis as one-time components to those experiencing temporary financial difficulties. Administration of these payments was done mainly through the Centres for Social Work, which existed throughout the former Yugoslavia. These payments were last made in Kosovo in 1997. Again, a major exclusion and discrimination against ethnic Albanians has been evident in the last decade. The last payments made included only 39,000 beneficiaries, or around 1.5 % of Kosovo's population.

16 Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

The inherited structure of social help payments has some unusual features by Western European standards, but the system has a track record of meeting need in a way which fits local customs and attitudes and which exercises tight control over the costs. There clearly is a good deal of expertise and experience in this area among the Kosovars now administering the system. Ongoing initiatives by bilaterals and NGOs (e.g. CARE) aim at strengthen existing capacity, through improved systems and training. The social protection component of the recent World Bank-financed social services project aims at build on these efforts¹⁷.

The social protection system of Kosovo has **several other social services** whose components were administered through regional Centres for Social Work. These included childcare placement, custody assessment, special services for the handicapped, etc. The same issues are present in these relevant aspects of social protection system. These components must be reviewed and analysed to see whether they are needed or not in the current social situation in Kosovo.

3 Education and employment

Education and employment are two major reform areas in any transition economy. Similar reforms are currently being focused on in Kosovo. Reforms have been started in both areas and are designed with regard to a transitional period from war to peace and from a public economy to an open market economy.

3.1 Reform of the educational system

The educational system in Kosovo has suffered **major problems** throughout the 1990s. In the 1991-1992 school year, ethnic Albanians were overthrown from the formal educational system of the former Yugoslavia and thus forced to establish a **"parallel" educational system**. This system was very weak since the classes were being held in private houses and non-school buildings and the teachers / professors were getting irregular salaries. Consistent and reliable data on the 'parallel' system were not kept, but estimates are that about 20,000 teachers, professors and non-teaching staff supported over 300,000 pupils in roughly 400 primary schools, over 50,000 students in 65 secondary schools and over 10,000 students in 20 university faculties¹⁸.

The survey conducted by IOM mentioned earlier revealed that the illiteracy among the present population 10 years and older is 6 %, of which 83 % are women. 71 % of persons older than 14 years have completed elementary and high school while 9 % have completed higher education¹⁹.

17 Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

18 Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

19 "Kosovo Demographic, Socio-Economic and Reproductive Health Survey." International Organization for Migration – Mission in Kosovo, Prishtina, May 2000.

From analysing the **current educational system** in Kosovo, it can be concluded that the current system does not allow for training of teachers and professors. Teachers and professors in Kosovo are not trained to work in Western standard teaching environments where active participation and involvement is emphasised through working in groups and pairs, case studies are used, lecture time is shorter, and the number of problem solving assignments is greater²⁰.

The teaching plans and programs used in Kosovo today do not fulfil modern curriculum guidelines. Most of them are outdated, not concrete and not practical²¹. Then there are no systems where the students evaluate the work of their teachers and professors allowing the latter to make improvements based on the suggestions they receive. The physical condition of public school buildings in Kosovo has been worsened by the recent conflict and over the last decade in which there have been no investments on the infrastructure of educational buildings and facilities.

Current **reforms are needed** in different areas of the educational system making possible the following:

- equal educational opportunities for all Kosovar citizens;
- straightening and restricting the requirements for admittance into high schools and universities;
- natural passage from one level of the educational system to the next for all students entering the system (which would be based on skills, interests, individual needs for personal development);
- restructure of teaching methodology and curriculum with the purpose of providing teaching experiences for students comparable to western standards;
- evaluation process where students provide feedback to their teachers and professors, such suggestions, comments and improvements ensuring long term improvements and greater sustainability; and
- vocational training for teachers and professors to improve their ability in delivering courses that allow for active participation, working in groups and pairs, case studies, preference of written tests over spoken tests, etc.²²

In accordance with the above mentioned agenda items of the educational system, the priorities in education could be expressed as “the need to restore a minimally acceptable learning envi-

ronment to children currently in schools, and the need to define a new education system and policies that will serve children in Kosovo for generations to come.”²³

3.2 Employment and labour market policies

The employment situation in Kosovo after 1990 is characterised by the **high number of unemployed** persons. The monthly report of the Kosovo Employment Service for the month of October reveals that there are 189,417 unemployed individuals in Kosovo registered through the KES out of which 93,561 (49.4 %) are unqualified persons, 12,200 (6.4 %) are half qualified, 21,830 (11.5 %) are qualified, 55,580 (29.4 %) are high school graduates, 2556 (1.3 %) are technical school graduates and 3690 (2.0 %) are university graduates²⁴.

One of the major difficulties after the conflict in the area of human resource development is the lack of professional and qualified human resources, combined with excess numbers of unqualified and unskilled labour. This combined with the low number of private large enterprises and the delaying of the privatisation process present gaps and mismatches in the local labour market that make it hard to improve the level of unemployment. However at the policy making level there has been substantial progress with the formulation of the Draft Labour Law for Kosovo in September 2000 which is in the process of being reviewed with predictions of approval in the short term²⁵.

The Draft Labour Law for Kosovo, which is framed by the UNMIK regulation 1999/24, is being designed in co-ordinance with the fundamental conventions of the International Labour Organisation. This law includes relevant issues present in western standard labour laws, such as discrimination, sexual harassment, minimum age, contracts, wages, minimum wages, working time, leave, unemployment, health and safety, probationary periods, etc²⁶.

Consequently, there is a general necessity for training young unemployed individuals in business management, entrepreneurship, informatics, construction, servicing, and many other specific areas. Due to the lack of training institutions only modern management and business training practices may contribute to a successful and profitable business. Understanding the importance of quality services in these areas, several international and local non-governmental organisations are involved in market economy actions such as market surveys, vocational training and business development services. The International Labour Organisation (ILO), the International Organisation for Migration (IOM) and many other agencies have been involved in training unemployed and self-employed Kosovars.

20 Hyseni, Halim, et al. Digits and Facts about Education in Kosova (*Shifra dhe Fakte për Arsimin e Kosovës*) Kosova Education Center. Prishtina, October 2000.

21 Hyseni, Halim, et al. Digits and Facts about Education in Kosova (*Shifra dhe Fakte për Arsimin e Kosovës*) Kosova Education Center. Prishtina, October 2000.

22 Hyseni, Halim, et al. Digits and Facts about Education in Kosova (*Shifra dhe Fakte për Arsimin e Kosovës*) Kosova Education Center. Prishtina, October 2000.

23 Kosovo – Economic and Social Reforms for Peace and Reconciliation. The World Bank – Mission in Kosovo, Volume 2, June 30, 2000.

24 “Report of Unemployed Persons” Kosovo Employment Service – Department of Employment, Prishtina, October 11, 2000.

25 “Draft Labor Law of Kosovo”. International Labour Organization, Prishtina, September 2000.

26 “Draft Labor Law of Kosovo”. International Labour Organization, Prishtina, September 2000.

Currently, the only local actors on employment issues are the Kosovo Employment Service (KES) Centres. They provide services to the unemployed, assisting them in finding jobs and vocational training. Several international NGOs are acting as employment agencies including the IOM, UNDP, AGEF, etc. The IOM has implemented a programme of four employment assistance centres throughout Kosovo whose main activities include providing a bridge between employers and employees. This programme has employed nearly 1000 people during the second half of 2000²⁷.

4 Conclusions

Finally the issues of health, social protection, employment and education are closely related one to another. In order to ensure a successful transition of Kosovo from a centralised to an open market economy there are major demands for reforms in these areas. Such reforms must allow for a smooth transition by minimising the side effects and consequences on the population of Kosovo.

It is essential to organise more employment generating projects for the current high numbers of unemployed individuals in Kosovo. With a decrease in unemployment levels, the number of people able to pay social taxes/contributions would increase as well, thus contributing to the overall regional spending. Once there is a proper personal and payroll tax collection in place, more spending would lead to more money going to a social security system which must be implemented in the near to medium term. This goes along with the American notion that there is no stable politics without a stable economy; and a stable economy requires jobs for people especially in rural areas.

Furthermore, there is a need for more projects initiated by local people and employing local people. This would increase local productivity and efficiency levels, thus contributing to the overall output levels of the nations in the region.

Along with the above mentioned necessities, several questions arise such as how much of the donations are really being used for concrete projects directly involving the people of Kosovo? How can we integrate local people into employment generating projects? How can we lower overhead costs and use more of the money for concrete employment generating projects? Several well thought out answers emphasise the importance of focusing on what the unemployed people know how to do and then later assist them in what they do not know how to do but wish to do. For Kosovo, this would mean a focus on agriculture, the improvement of health and education services, and a focus on young people. For example, when employing new people buy them machines they know how to use and can learn how to use instead of machines that they are completely unfamiliar with and must spend a year learning how to use. *Let's forget about being perfect and let's start somewhere.*

Summarising, the major areas of social policy reforms either missing in Kosovo or lacking concrete implementation include the following:

- a social security and protection system for the people of Kosovo that is reliable and sustainable and would replace the need for humanitarian assistance;
- health reforms and policy consisting of health insurance that is taken from employees' salaries each month as well as health services aimed at addressing the effects of social traumas caused by the recent conflict;
- employment insurance programs that would promote safer working environments for permanent employees as well as programs that would increase employment opportunities for the unemployed and provide business opportunities to the self-employed;
- education reforms from education institutions leading to a remodelling of the educational system through the encouragement of active participation as well as the introduction of written tests and examinations;

The above-mentioned four areas deserve greater attention from the local and international population, policy makers, donors and actors. Much of the total budgeted spending for Kosovo should be addressed to these areas.

27 "Progress Report on Employment Assistance Centres." International Organization for Migration – Mission in Kosovo, Prishtina, November 2000.

Selected References

Gjonca, Arjan (1999): "Demography of Kosovo before the War,".

Hyseni, Halim, et al. (2000): Digits and Facts about Education in Kosova (*Shifra dhe Fakte për Arsimin e Kosovës*) Kosova Education Center. Prishtina, October.

International Labour Organisation (2000): "Draft Labour Law of Kosovo", Prishtina, September 2000.

International Organisation for Migration – Mission in Kosovo (2000): "Kosovo Demographic, Socio-economic and Reproductive Health Survey." Prishtina, May.

International Organisation for Migration – Mission in Kosovo (2000): "Progress Report on Employment Assistance Centers." Prishtina, November.

Kosovo Employment Service – Department of Employment (2000): "Report of Unemployed Persons." Prishtina, October 11.

Riinvest (1998): Economic Activities and Democratic Development of Kosova – Report on Research Project Outcomes, Second Edition, Prishtina, September.

Statistical Unit of Kosovo (1989): Statistical Annual of Kosovo 1989 (*Vjetari Statistikor i Kosovës 1989*). Prishtina, December.

The Village Employment and Rehabilitation Programme (VERP) (2000): "Interim and Final Evaluation Report." Prishtina, June.

The World Bank – Mission in Kosovo (2000): Kosovo – Economic and Social Reforms for Peace and Reconciliation. Volume 1, June 30, 2000.

The World Bank – Mission in Kosovo (2000): Kosovo – Economic and Social Reforms for Peace and Reconciliation. Volume 2, June 30.

"The World-Wide Albanian Homepage." <<http://www.albanian.com>> [Accessed 7 December 2000].

Annex: Current socio-economic characteristics

Chart 1: Active population

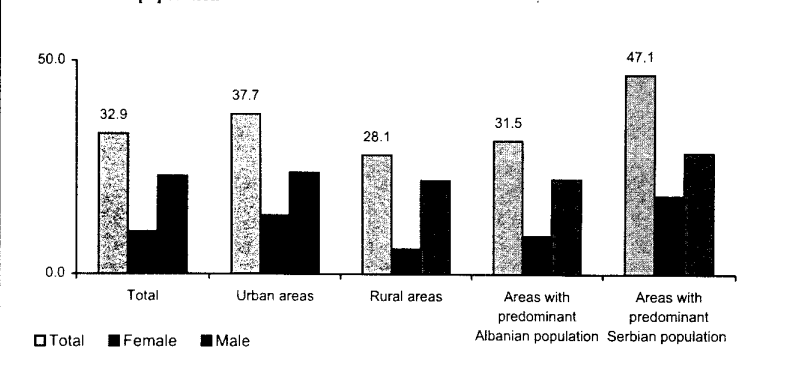


Table 1: Gender structure of active persons by areas

	Active persons		
	Total	Female	Male
Total	100.0	30.1	69.9
Urban areas	100.0	36.6	63.4
Rural areas	100.0	21.1	78.9
Areas with predominant Albanian population	100.0	28.7	71.3
Areas with predominant Serbian population	100.0	39.3	60.7

Table 2: Unemployed persons as a percentage of active population

	Unemployed in active population		
	Total	Female	Male
Total	48.9	15.7	33.2
Urban areas	42.7	17.9	24.9
Rural areas	57.5	12.7	44.8
Areas with predominant Albanian population	46.4	14.4	32.1
Areas with predominant Serbian population	64.7	23.9	40.8

Table 3: Gender structure of unemployed			
	Unemployed in active population		
	Total	Female	Male
Total	100.0	32.0	68.0
Urban areas	100.0	41.8	58.2
Rural areas	100.0	22.0	78.0
Areas with predominant Albanian population	100.0	31.0	69.0
Areas with predominant Serbian population	100.0	37.0	63.0

Chart 2: Most common sectors of activity of employed persons

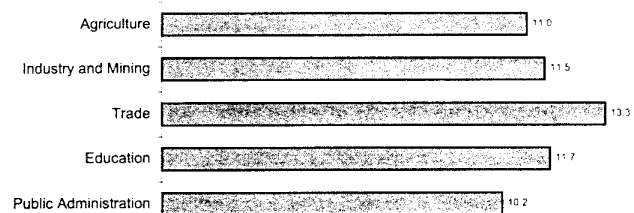


Table 4: Breakdown of total surveyed population by main source of living

Main source of living	Total	In urban areas	In rural areas	In areas with predominant Albanian population	In areas with predominant Serbian population
Total	100.0	100.0	100.0	100.0	100.0
Work	13.5	17.8	9.1	13.5	13.8
Pension or social income	4.0	4.7	3.4	2.5	18.8
Relief	4.1	3.2	5.0	2.1	23.0
Rents	0.1	0.2	0.0	0.1	0.2
Savings	0.4	0.6	0.2	0.3	1.6
Other unknown	4.5	4.4	4.6	4.7	2.4
Supported person	73.3	69.1	77.7	76.8	40.1

Source: "Kosovo Demographic, Socio-Economic and Reproductive Health Survey." International Organisation for Migration – Mission in Kosovo, May 2000

Macedonia

Antonija Josifovska, PhD
Senior Scientific Researcher
Institute of Economics
University Cyril and Methodius, Skopje

December 2000

1	The development of the social situation in the last ten years	95
1.1	Development of income and poverty	96
1.2	Development on the labor market.....	99
2	The reform of the system of social security	101
2.1	Health and health insurance	101
2.2	Pensions insurance	103
2.3	Unemployment insurance	106
2.4	Other social protection schemes	107
3	Education and employment	107
3.1	Reform of the educational system.....	107
3.2	Employment and active labour market policies	108
4	Conclusions.....	109

1 The development of the social situation in the last ten years

At the dawn of a new millennium the region of Eastern and Southeastern Europe reflects on the realities of the **latest experiment in social engineering**. Again, people are the objects instead of the participants in shaping policies that affect their daily lives. Many look back on the 1990s as a decade of social and economic upheaval that neither they nor those offering advice had anticipated. Centrally planned and managed economies which focused on providing basic goods and services but overlooked the importance of political choice or individual rights have been replaced by policies where individual responsibility take center stage without much consideration for those left behind. Market forces have moved the latter group off-stage. Never before in history has a systematic change been so profound in such a short time span, never before have we seen all power to the state become all power to the market with the visible hand of centralised authority turned into the visible hand of the market.

Both ideologies – all power to the state and, all power to the market – claim to provide the best for the people, whereby the **market ideology** includes the promise of a civil society capable of correcting its distortions, which so far have not materialised. In effect neither blind trust in centralised authority, nor blind trust in the market as the panacea, have proved capable of producing the democratic instruments needed to correct the distortions that both ideologies produced.¹

The World Development Indicators 1999 published by the World Bank, provide the latest illustration: *“Even before the crises, poverty was undermining transition in Eastern Europe and the CIS. In 1989 about 14 million people in the former Communist bloc lived on less than \$4 a day. By the mid-1990s that number had risen to about 147 million.”* As a result, the market ideology of fuller choice for most is in danger of turning into a reality of fewer choices for many, where the Iron Curtain separating people between countries is being replaced by Glass Curtains separating people within countries.

Poverty, in its extreme form, is a phenomenon of the present time. It is widespread and present in most countries in transition. The characteristics of the former system, including full employment, controlled prices of vital products, a universal education system and medical insurance, and modest but widespread social benefits granted minimum living standards for the majority of the population. Thus, the previous system avoided recognizing poverty and dealing with the problem to its full extent. Drastic (in the right way) transition changes and economic collapse in these countries at the beginning of the nineties, did not allow time for people to materially and psychologically adjust to the new environment. Initially it was steep output decline at the same rate of social rights in order to avoid extreme poverty, i.e. a severe decline in subsistence means. The abrupt adverse growth followed by social changes, the privatisation process with its advantages and disadvantages, the restructuring of the economy, the high inflation rate, the increase in unemployment, and drop of the real total income of the population in conditions of limited social benefits produced “socially vulnerable” groups.

¹ See: Human Development Report For Central and Eastern Europe and the CIS 1999, UNDP.

Poverty in these countries, resulting from numerous changes in the process of transition to a market economy, should be viewed and analyzed in its close correlation with the **change in income distribution**, and **decrease in economic growth and labor mobility**. Firstly, a greater disparity of wages and other income is a necessary part of transition, because market determination of wages leads to improved and efficient performance essential to successful implementation of reforms. More efficient workers have to be rewarded for their performance. However, increased inequality can raise poverty in the short run. Whether "losers" become poor or not depends largely on the economic growth and reform of the social welfare system aimed at providing efficient mechanisms to relieve poverty. Secondly, negative growth, typically at the beginning of transition, boosts poverty and deteriorates the social security of the population. With a decline in output, governments face fiscal pressures to spend more. Thirdly, the mobility of labor, involving reallocation of labor between companies, sectors and regions is critical for the new market economy. Unlike the labor market of the former system, that sacrificed labor mobility in return for higher individual security, in the market oriented economy, there is an emphasis on mobility between employers, types of work and regions. In such processes, employees may experience unemployment and consequently poverty.

1.1 Development of income and poverty

The Republic of Macedonia was one of the poorest Yugoslav Republics heavily subsidised by transfers from Belgrade, and greatly reliant on internal markets for trade. Although literacy was almost universal (94 % according to the 1994 Census) and life expectancy (72 years) at par with many higher income transition economies, infant mortality rates compared unfavorably with Central and Eastern Europe norms. A cradle to grave protection system was also in place with the intention of providing individuals with full protection against income loss and other lifetime risks. The system provided guaranteed employment, child allowances, free education and health care, and pensions upon retirement. However, open unemployment was high (38 %) compared to regional norms and concentrated among new entrants to the labor force. The socialist worker management system gave the employed (or insiders) extensive powers to push up wages, restrict hiring and termination practices, and keep out younger and less skilled workers².

At the start of transition, like other countries, our country encountered the issue of poverty and it is still dealing with its negative impacts and the growing number of poor in the population. Gaining independence in 1991, the Government embarked on a process of radical change amidst a negative atmosphere. The underdeveloped status, inherited as a former Yugoslav Republic, even more stressed the **problems posed by transition**. The processes of transition into a civil society, the change of planned into market economy, and a transition from a one-party ideological monopoly to political pluralism were additionally burdened by a lack of opportune milieu for the new society, weak proprietorship structures and undeveloped parlia-

2 See: Report No.19411-MK Former Yugoslav Republic of Macedonia Focusing on the Poor, The World Bank, 1999 .pp i-ii.

mentary democracy. The social structure of the population and the growing number of poor and needy persons was largely influenced by the following factors:

- a sharp drop in economic activities leading to industrial output setbacks and decline in the GDP (real decline in GDP amounted to an average of 3.6 % annually in 1991-1997);
- a real drop in wages, pensions and other social transfers (real wages decreased by an average of 7 % annually in 1991-1997);
- an increase in income inequality between certain population groups (GINI coefficient as a benchmark of inequality). Inequality has increased from 22 to 27. This coefficient is 10 times higher in the private sector than in the public sector.;
- the privatisation process created an army of laid-off and redundant labour leading to a dramatic increase in unemployment;
- a higher inflation rate which, at the start of transition greatly devaluated income. Currently, the inflation rate is under government control, at a level identical to that of western countries;
- insolvency of companies and banks, and high current deficit in public funds, has resulted in delayed payment of wages and social transfers, and increased the number of laid-off workers;
- unregistered labour, working for extremely low wages and evading payment of taxes, old-age pension and medical insurance contributions, led to current deficit in social funds and
- stabilisation policy aimed at attaining macroeconomic balance and stability through cutting aggregate demand and matching it to supply. The policy also includes personal consumption restrictions, implemented mainly through freeze of wages in the public sector.³

The crisis of the 1990s deteriorated all sectors of the economic activity and the lives of the citizens. Yet, the **decline in output** was extremely drastic in the first years of the 1990s as evidenced in Table 1.

Table 1: Average annual rates			
	1981-1985	1986-1990	1991-1995
Gross Domestic:			
Total	0,6	-0,6	-8,7
Per capita	-0,7	-2,9	-7,7
Output per sector:			
Industry	4,2	0,1	-13,7
Agriculture	-0,5	-0,5	0,6
Construction	-10,1	-6,0	-12,9
Employment rate	3,2	-0,1	-2,6
Real net wages	-6,6	-2,5	-7,0
Source: Statistical Year Book, 1997, p. 201.			

3 See: FYRM Human Development Report 1998, UNDP, Skopje, 1998, pp. 45-46.

A decline in output rates, evident in industry and construction, was followed by production inefficiency, a drastic fall in investments, low technology upgrading and a decline in total capital and employment⁴.

Almost 70 % of labour have lower wages than the national average pay; out of these, an average of 20 % receive their wages with delay; two-thirds of pensions are under the level of the average pension which amounts to 68 % of average pay; 36 % of the working population is unemployed and listed in the category of "long term unemployed"; out of these only 20 % receive unemployment benefits. This situation led to a **real drop of household spending** and its continuous decline in the GDP structure (from 69.3 % in 1992 to 62 % in 1996). Despite government programmes for cutting consumption, the highest share in the household spending is food consumption (nearly 45 %) with a still upward tendency. This, of course, results from the low elasticity of this kind of consumption having a continuous inclining tendency even at low household income. Having low living standards, people have to trade-off higher level needs for food. Table 2 clearly illustrates the substitution of needs-due to low household income: people are forced to cut down expenditures on clothing and shoes, as well as on household facilities.

Table 2: Structure of household spending

	1992	1993	1994	1995	1996
Household spending	100	100	100	100	100
Food	44.5	45.5	44.9	45.0	45.1
Beverages	9.8	4.1	4.0	4.1	4.1
Tobacco	3.2	3.4	3.4	3.0	3.3
Clothing and shoes	8.1	7.7	7.9	7.0	6.6
Household facilities	16.3	13.4	11.8	11.8	11.8
Heating and power	6.4	7.8	8.0	8.2	8.5
Furniture	1.3	1.5	1.6	2.4	2.1
Hygiene	4.9	4.6	5.0	4.7	5.8
Education, culture, leisure	2.8	3.5	3.4	2.8	3.1
Transport, PTT	6.8	6.2	7.7	9.1	7.3
Others	2.0	2.3	2.3	1.9	2.3

Source: Republic Statistical Office

The decline in real wages has been steeper than in most central and Eastern European countries. In 1996, the average wage was roughly half of 1989 levels. Specifically, the **inequality**

in wages, measured by the Gini coefficient, has increased from 22, indicating a low level of inequality, to 25-27, indicating a modest level of inequality. By way of comparison, in Poland and Bulgaria the Gini coefficient of wages exceeds 30 points. In 1996, the proportion of low-paid workers was much higher in the private than the public sector, and in rural than in urban areas. Household heads employed in agriculture, manufacturing and trade sectors were much more likely to be poor.

The transition exacerbated the poverty situation in the country. Independence from Yugoslavia, the loss of federal transfers, the external conflict amongst its neighbors, and the economic contraction all increased poverty. Real wages declined, unemployment increased, poverty increased from 4 % of population in 1991 to approximately 20 % in 1996. The **increase in poverty** was however not uniform. Poverty rates remained largely unchanged between 1990-91, but increased sharply between 1993-95. Today about 1/5 of the population in Macedonia is considered to be poor. More precisely, poor people in the Republic of Macedonia are those with an income (expenditure) level below 60 % of the mean monthly expenditure, which is the official poverty line, and expressed in money terms as being approximately \$2.5 per month. The poverty rate is highest in families with small children (27.2 %), while in households with elderly people it is 14.5 % and in households where only one member is employed it is 22.5 %.⁵ The main reason for the increase in poverty has been a major decline in real consumption. The inequality in consumption grew, but contributed far less to poverty growth.

1.2 Development on the labor market

The labor market in Macedonia has its roots in the **worker management system** as practiced in the former Yugoslavia. Under this system of "market socialism" the governance of enterprises was restricted to Worker's councils, giving workers (insiders) considerable incentives to restrict employment of new entrants to the labor force (outsiders) and so push up earnings. As a result, registered unemployment rates (21 %) were high in Macedonia even before the transition. Rigidities in the labor code such as hiring/firing restrictions, national collective bargaining, inflexible wage setting, and high minimum mandatory labor benefits, all served to increase labor costs. Not surprisingly, **high labor costs** contributed to high and sustained enterprise losses. After independence was achieved the Republic of Macedonia was faced with a sharp decline in economic activity, leading the Government to privatise a large number of loss-making enterprises and to lay off a significant number of workers. However, many privatised enterprises remained insolvent, supported by soft loans from banks, by the continued accumulation of wage arrears, and the payment of payroll taxes on their behalf by the state.

Unemployment rates have increased rapidly since independence, up from 34.5 % to 44.0 %. When we discuss the rate of unemployment, it should be mentioned that there are significant differences between the registered number of unemployed and the rate shown by questionnaire surveys of the work force that have taken place over the last few years. These differences are manifested through the unemployment rates. The above mentioned discrepancies are a result of the different way of determining the scale and intensity of unemployment;

4 See: Human Development Report 1998, UNDP, Skopje, 1998.,

5 See: Poverty reduction strategy paper of the Republic of Macedonia, Ministry of Development, 2000.



namely, the registered number of unemployed being either of a huge heterogeneous value that includes many categories of unemployed on the one hand, or showing that the registered number of employed people is very small which does not accord with the real situation. The questionnaire itself gives a more realistic picture because it includes those persons engaged in the informal sector (the gray economy)⁶.

The **labor force participation rate** of the active population of Macedonia is quite low (55 %), particularly when compared to European standards (70 %), and even compared to other CEE counties (particularly for women). As in other countries, labor force participation rates have likely declined during transition. High rates of unemployment have likely induced a discouraged worker effect. Individuals who participate in the labor force are young with education levels comparable to regional norms. Nearly 90 % of the labor force is below fifty years of age and a sizable one third of the labor force comprises workers with a primary education; secondary school graduates constitute nearly 46 % of the labor force. The public sector is the dominant employer, accounting for nearly 60 % of all jobs.

We agree with the summary of the World Bank Report about the labour market in our country. This includes:

- the increase in poverty amongst workers is mainly the result of a sharp decline in real wages. Wage disparity has increased but has contributed far less to an increase in poverty. Wage uncertainty has also increased and has had an adverse impact on household welfare. The lack of major restructuring of enterprises has helped continuous growth in open unemployment, but with high economic and fiscal costs;
- low-paid and less educated workers have lost out in both relative and absolute terms in the transition to a market economy compared to well educated top paid (mainly urban professional) workers. The majority of low-paid workers are secondary educated male manual workers in agriculture jobs;
- poverty is linked strongly to unemployment. Nearly half of all poor live in households with one or more unemployed worker. Poverty rates increase with the number of unemployed in a household. Unemployment affects mainly secondary earners and is a relatively greater problem in urban areas;
- the majority of the unemployed are new entrants to the labour force. Thus, unemployment is mainly a result of constraints to entry not exit;
- the long duration of unemployment amongst the young is also worrisome. Unemployment of long duration discourages labour force participation, depreciates labour force skills, and signals a "less productive worker" to the employer;
- women are more vulnerable than men. Women are more likely to be unemployed, receive lower wages for the same work, and are less likely to be hired in the private sector. Greater formalisation of the economy to encourage non-discrimination in the work force will be the key to improving the welfare of female workers.

6 See: *Ekonomskie i socialnite aspekti na nevrabotenosta vo Republika Makedonija i Republika Bugarija i pretpostavki za neizino namaluvanje*, Friedrich Ebert Stiftung, Ekonomski institut i ISPPI, Skopje, 2000.

So in the period of transition, **massive and dynamic changes** afflicted the labour market: (1) an excessive increase in unemployment, especially of unskilled and/or older workers, amongst the young and those with previous work; (2) decreasing employment for women; (3) a decreased demand in the labour market and an absence of new employment due to problems with over-employment; (4) a decreased demand for seasonal workers; (5) an increase in the number of recipients of unemployment benefits and (6) concentration of unemployment in large urban centres.

2 The reform of the system of social security

The main social programmes in Republic of Macedonia include: (I) the public health care system, (II) the public education system, and (III) a public cash transfer system, including a pay as you go (PAYG) public pension system, means tested child allowances for the employed and two new programmes: a) an unemployment insurance system, and b) a means tested social assistance system for those who fall below a specific income level, whether employed or not.

Since the Republic of Macedonia has achieved independence as a result of the crumbling of the former SFRY it has had to face a painful and complicated process of manifest changes; i.e. transition. A significant **increase in public expenditures** has been seen in particular in the first years after the country gained its freedom. Public expenditures reached 45.8 % of GDP for 1992, and successively 53.8 % and 42.1 % in 1993 and 1994. In the following period, as a result of the realisation of stabilisation programme the share of public expenditures began to fall and amounted to 39.6 %, 37.4 %, 35.3 % and 36.1 % for the period 1994-1998 respectively.

2.1 Health and health insurance

Health care services are provided by health care institutions in the public and private sectors through a network of organisational units and specialised personnel. In 1996, there were 145 public health care institutions. Of these, 59 provided **primary health care** services (medical stations and centres, health care centres, out-hospital dependencies and pharmacies); **secondary health care** services are provided in 39 health care institutions (general hospitals, specialised hospitals, treatment and rehabilitation centres, and preventive public health care institutions); and **tertiary health care** services are provided in 47 institutions (University clinics, University institutes at the Medical Faculty, specialised hospitals, the Institute of Medical Rehabilitation and the National Health Care Institute). Recently, efforts have been made to restructure the health care system by decreasing the number of pharmacies and separating general hospitals from medical centres in order to distinguish primary from secondary level of health care. Also, two University Centres have been established to provide third-level health care services including the Clinical and Dental Centres. Since 1991, the numbers of institutions in the private sector has been increasing continuously, comprising, medical and dental offices, pharmacies and other institutions. Compared to the total number of citizens the ratio is 410 per doctor, 1398 per dentist and 3,032 per pharmacist which is a good prerequisite for quality health care.

The **health insurance system**, set and developed over past decades, has been increasing its coverage of citizens gradually and reached full coverage at the beginning of the 90s. There was a sharp decline in coverage in 1994 and 1995 (67.6 % of the population in 1995), followed by a gradual increase over the past two years (80.5 % in 1996 and 83 % in 1997). Access to health insurance is granted by registration through business, enterprises and other organisations, or personal insurance in the case of private businesses, and by a regular monthly payment of health insurance contributions. The contributions for the unemployed are covered through the Employment Bureau, for the recipients of social assistance through the Ministry of Labor and Social Policy and for pensioners through the Pension and Disability Fund. According to Health Care Law, there are three types of health insurance: **mandatory, mandatory-supplementary and voluntary**. The Law lists the category of citizens with mandatory insurance. The solidarity principle is a key element for exercising the basic health care rights for citizens who are not covered by health insurance, but only for those belonging to the risk groups with regard to age, sex or disease (for example, children and youths until completion of their education, senior citizens above 65, women during pregnancy and maternity and those suffering from certain diseases). The health insurance system provides an extensive list of health care services, drugs, sanitary materials, orthopedic devices, sick leave reimbursements and cost leave reimbursements and cost coverage for health care abroad in specific cases.

The health care system is financed by the **Health Insurance Fund** established within the Ministry of Health (up to 1991 there were independent Self-managing Interest Groups for Health Care on a national and municipal level). The insured individuals exercise their rights through the Health Insurance Fund. During 1991-1995, the revenues collectable from contributions decreased by approximately 40 % in real terms as a result of decreased salaries, bankruptcy of socially-owned enterprises, evasion of payments by many enterprises and of course increased unemployment. As a result, the revenues of the Fund reduced significantly. The only option was to decrease the funds allocated to the health care institutions, since it was considered unfeasible to reduce the network of institutions or the number of employees in the health care institutions. There were even efforts to collect revenues by accepting decreased payments in order to settle the outstanding debts. Also, a new programme for drugs supply by public tender was introduced which resulted in a price reduction. All these measures alleviated partly the deficit in the health care system.

Between 1991 and 1996, the reduced revenues in the Health Insurance Fund resulted in **decreased funding of the health care institutions**. The funds for salaries decreased by 45 % in real terms and payments were delayed for two months; the drug funds were decreased by approximately 40 % as were as those for medically expendable materials and maintenance of the equipment. Investment were almost frozen. Many of the health care institutions were not able to pay regularly their liabilities to the suppliers of food, drugs, electrical power, heating etc.

In an effort to find **alternative options for supplementary funding**, co-payment for health care services was introduced, as participation of those insured. However, the results were not as expected because of the wide range of exemptions (determined by age, sex and disease) granted to those insured. Consistent with global trends in economic policy, co-payment of those insured was doubled, but still with minor financial effects (4.5 to 5 % of the revenues in the health care institutions). There are still no significant changes in the financing of health

care institutions. The proposed regulations stipulated financing on a contractual basis and invoicing of services in accordance with the Services Price List. However, these rules are to be implemented only in the private sector, while the Health Insurance Fund allocates funds for public sector to cover expenses even without signing any contracts as to the type and quality of the services rendered. As a result, the restructuring in the public sector has been delayed which has led to an increased demand of services and a significant drop in the quality of health services, as well as to inefficient use of resources.

In order to alleviate the negative effects caused by the deficit, the Ministry of Health and the Health Insurance Fund have introduced several measures including the centralised public purchase of drugs, sanitary materials and equipment. The **major objective of the reform measures** is further the strengthening of primary health care mainly through the introduction of patient's rights to select his/her own doctor, the continuous training of doctors in primary health care, and the modernizing of medical equipment, as well as the closing of the gap between urban and rural servicing.

2.2 Pensions insurance

The pension system in our country has existed for more than 50 years. Over this period, the system has been changed several times to adjust to the socioeconomic conditions and financial potentials. The first Pension and Disability Insurance Law was passed in 1972. It used the Federal Yugoslav Law as a basis and followed the principle of paying contributions for current and past labour. The stipulation of this law was followed until the gaining of the independence of our country, that is until the passage of the new Pension and Disability Insurance Law in 1993. The **current pension system** has the following characteristics:

Purpose	Full pension for all the employed having full years of service
Sponsor	The state
Choice	Compulsory contribution
Who is covered	All employees
Who pays contributions	Contribution are mainly paid by employers, with special Government subsidies to the pension system
Financing	Pay-as you-go (current financing) without current reserves (however, the Law stipulates for current reserves)
Who takes the risk	The state takes all risks
Who guarantees	Officially there is no guaranteed system (however, the state is the guarantor)
Type of pension	Fixed pension, including guaranteed minimum pension
Pension basis and amount of salary calculated	Maximum pension rate of full working life is 80 % of the indexed average earnings throughout the years of service. Pensions are calculated only on the basis of the earnings
Indexing	The pensions are indexed according to the salary growth in the public sector

Source: FY Republic of Macedonia Human Development Report 1998, UNDP, p 72

Pension and disability insurance is compulsory. It covers all employed and self-employed persons who have a regular monthly income being a prerequisite for contributions and benefits pertaining to the insurance system. This system operates on a pay-as-you-go basis. The **basic principles** of the current pension and disability insurance system include: compulsory; benefits depending on the years of service and the amount of contributions; social equity; possibility for voluntary insurance and compliance with the convention and recommendations of ILO.

An old-age pension is determined on the basis of the monthly average salary earned by the employee during the whole period of insurance (pension basis) starting from 1 January, 1970 at the earliest. Replacement ratio is 35 to 80 % of pension base, depending on years of service. With 20 years of service, replacement rate is 44 % for men and 53 % for women. Old-age pension eligibility is determined according to the following requirements: a full age of 63 years for men and 60 years for women; a full age of 65 years for men and 63 for women, and at least 15 years of service and full age of insurance period for men and 36 years for women irrespective of age.

Disability pension. Insured employees with loss of working abilities, or with remaining working capabilities, who due to age can not undergo vocational retraining or otherwise not qualify for other corresponding positions, acquire the right to disability pension if: (a) the disability is due to injury at work or occupational illness; (b) the disability is due to injury away from work or illness, if the insured has acquired no less than one-third of pension service from the age of 20 to the day of disability and (c) special rules are applicable in cases where disability occurred prior to age 30. The replacement rate is no less than 44 % of the pension base for men and 53 % for women, if disability occurred prior to age of 63 (men) and 60 (women). If disability occurred after the above mentioned ages, replacement rate is no less than 35 % of the pension base for men and 40 % for women.

Disability supplement. Under the conditions determined by law, the family of a deceased person is eligible for survivors pension, the family being the spouse, dependent children and parents of the deceased living in the same household. The replacement rate is paid as a share of disability pensions. It amounts to: (a) 10 % if accrued benefits are less than half the years of service; (b) 15 % if accrued benefits are between half and $\frac{3}{4}$ of the years of service and (c) 20 % if accrued benefits are more than $\frac{3}{4}$ of the years of service. Disability pensions and disability supplements may not exceed 80 % of the pension base.

Lowest level of pension. A person is eligible for the lowest pension benefits depending on the amount of pension determined on the basis of the insurance period and the amount of salary earned. The eligibility does not depend on the material status of the recipient, but rather on the amount of the pension. If the pension of the recipient is below the lowest pension level it is calculated on the basis of the national average salary paid in the previous year in the public sector according to the following criteria: up to 40 % of the average salary for recipients of pensions with an insurance period over 35 years for men and 30 years for women; up to 37 % of the average salary for recipients of pensions with an insurance period over 25 years for men and 20 years for women and up to 34 % of average salary for recipients of pensions with an insurance period up to 25 years for men and 20 years for women.

Highest pension level. The purpose of this category is to cap the highest amount of pension that can be paid in the pension and disability insurance system. The highest pension cannot exceed 80 % of the national average salary paid in the public sector in the previous year, increased by 2.7 times. The **average amount of pension** varies by pension type. The highest average pensions are old age pensions, followed by disability and other pensions (mainly survivor pensions for women). Agricultural pensions pay the lowest average amounts overall. Women receive lower pensions than men, reflecting lower paid jobs and/or lower survivor pensions for all but the minimal pensions category.

Economic depression and the transition have caused **problems with the payment of contributions**, due to a reduction in the number of employed people and the overdue nature of payments. At the same time the expenditures for pensions are rising. This situation has made the pension system expensive, reaching 15.6 % of GDP in 1993. The revenues of pensions fund are realised from several sources: 1) original incomes, 2) the budget and 3) other transfers. In the structure of original incomes the most expressed participation is the ones from payments (over 65 %), contributions from the employment's bureau and other revenues. The revenues structure comes from the existing PAYG system of pension insurance. In this system there is no room for private forms of pension insurance. This shows itself in a relatively poor structure of incomes and at the same time a high participation of funds from the budget to cover the difference between original and total incomes. Funds paid into the pension fund by the Employment Bureau are intended to those people who have temporarily lost their jobs. These funds are transferred from the state budget. The total revenues of Pension funds of the Republic of Macedonia in the period from 1997 to 1999 were relatively constant and amounted to 10 % - 11 % of GDP. The total expenditures amounted nearly to the same percentage of GDP.

Table 3: Revenues and expenditures of the pension fund in %

	1997	1998	1999	2000
Total revenues	100			100
1. Original revenues	80.3			82.1
Salary contributions	68.4			67.9
Revenues contribution	1.3			1.4
Private sector contribution	2.1			2.1
Farmers contributions	0.7			0.3
Employment Bureau contributions	3.9			6.5
2. Budget revenues	19.7			17.5
3. Other budget transfer	0.0			0.3
Total expenditures	100			100
Pension	86.0			85.7
Injury grants (Disability insurance grants	0.9			0.9
Health pensioner insurance grants	11.4			12.1
Salaries of administrative personnel	0.6			0.6
Other expenditures	1.0			0.8

Source: Calculated from documentation of the Ministry of Development of Republic of Macedonia

In conjunction with the projections concerning the financial status of the Pension Fund, it is expected that positive trends in economic growth will prevail leading to an increase in employment, (that is a decrease in the unemployment rate). Projection evidence shows that the Fund will operate with a surplus due to a rise in revenues over expenditures. At the same time, the fertility rate will fall and the mortality rate will improve leading to an imbalance between insured persons and pensioners, and, consequently, to increased expenditure. It is presumed that this trend will continue until 2020 when the Fund will become permanently insolvent and incapable of bearing the burden of pensions. The **priorities in reforming the pension system** include: secure pension and disability benefits, i.e. secure income for the people in their old age; short-and long-run solvency of the Pension Fund; maximum security at minimum risk; equitable pensions for all generations and building public trust in the pension system through consistent efforts to achieve the goals set.

World experiences evidence different types of pension systems, including the pay-as you-go system, a capital funded compulsory or voluntary pension system or a mix of all these schemes. Experiences in the other countries regarding pension schemes, contributions, and financing methods are valuable and should be taken into consideration when designing reforms of pension system in our country. In Macedonia, there are **several projects** financed through the World Bank and USAID for changing the pension system. The need for reform of the pension system mainly through introducing a parallel private system, is obvious. The current mix of financed and capital funded pension schemes will offer a risk sharing option; if the PAYG system is hit by, say, the aging population risk, the stability of the whole system will not be at risk because the capital funded scheme is not influenced by this risk. On the other hand, there are risks that have an impact on the capital funded scheme, for example, a stock exchange market crisis. However the system will remain stable because such risks have no impact on the PAYG scheme.

In the long-run, the **mix of schemes** would offer a sustainable pension system with secure incomes for pensioners, and, at the same time, would build a public trust in the system. Considering the primary objectives of the pension system, the investment capacity and progress of the capital market, the Government will have to make strategic choices about the model of pension schemes, whether compulsory or voluntary, and who will pay the contributions (the pool of employees or only new labour). The transition costs, i.e. costs emerging from the transition from one to another pension system, will be the key factor in making these choices. And, finally, consistent reforms are needed for the survival of the system because most of the pensions depend on the system.

2.3 Unemployment insurance

The unemployment insurance provides temporary support against loss of income to individuals laid off from work. New entrants to the labour force, who form the majority of the unemployed, are not eligible for unemployment benefits. The number of benefit recipients is therefore only a small proportion of the total number of unemployed in the country. The average per capita benefit received by the unemployed is much lower than the old age pension and closer in line with per capita disability payments. The distribution of public expenditures on unemployment spending is weakly pro-poor. The poor receive a greater proportion of public

spending on unemployment benefit relative to their share of total consumption (8 %), but less than their share of the population (20 %). The eligible unemployed receive benefits equal to 50 % of average annual wages for the first 12 months, which falls to 40 % of average wages over the next 6 months. The duration and level of unemployment benefit ranges from 3 to 18 months, varying as to the length of the contribution period.

2.4 Other social protection schemes

The social assistance system. Before 1998, the social assistance programme guaranteed rural and urban households, subject to an income and asset test, a minimum income approximately 50 % of the respective official rural and urban poverty lines. Households eligible for social assistance received a transfer equal to the difference between their income and this minimum income guarantee. The minimum income guarantee provided by the programme varied by household size, composition, and urban/rural location. In 1996, the social assistance transfers amounted to 1.3 % of GDP.

In 1998, the Macedonian Government adopted a revised social assistance decree. The decree provides a uniform scale rate for both rural and urban areas. The new scale rates vary only with household size. The distinction between children and adults has been eliminated. The minimum income guarantee for large families has been reduced to roughly 40 % of average wage. The Government also has decided to limit the duration of social assistance to four years. The income threshold will also be reduced over time. Individuals will get social assistance benefits at 100 % of the current threshold for two years; benefits will be reduced to 70 % and 50 % in each following year.

The child allowance programme provides child benefits to families with at least one employed member and an income of less than 1,700 denars per month. The benefit is 500 denars per month per child and is restricted to three children per family. (See Table 6)

3 Education and employment

3.1 Reform of the educational system

The Macedonian education system, funded and provided by the state, guarantees the constitutional right of all children to be educated in their own languages – Macedonian, Albanian, Serbian, Turk or Gypsy – through secondary education. The **education system** is comprised of pre-school (ages 3-6); compulsory basic or primary school (ages 7-14); and two streams of secondary education (ages 15-18), i.e. specialised vocational and general secondary and tertiary education.

Macedonian gross **enrolment rates** are lower, relative to regional norms at all levels of the education system. The gross enrolment rate in primary education is roughly 84 %, dropping to 72 % in secondary school and 12 % in post-secondary education. The gross enrolment is 13 % for pre-school education. Net enrolment is roughly equal to gross enrolment for all levels of

education except at the secondary school level (50 % net enrolment)⁷. The current levels of participation in the education system must be seen in an historical context. There have been major changes in the participation rate in the education system during the transition. As in most transition countries, gross enrolment rates have declined at all levels of the education system. The decline in enrolments overall likely reflects a decline in real household income, an increase in indirect costs (in terms of foregone income for higher ages), and an increase in direct costs of obtaining an education, as a result of increased fees and reduced subsidies on textbooks. Another important trend, common to the region, is the switch in enrolments from highly specialised vocational secondary schools towards general secondary education. This is generally attributed to growing dissonance between specialised vocational secondary education curricula and the market economy. However, despite this decline, the enrolment rate in vocational education still remains a very high share of total secondary enrolments compared to other countries in the region.

Education status has increased overall for both men and women in both rural and urban areas. The country has achieved a 95 % literacy rate. These major achievements are likely attributable to changes in education policy (compulsory education); increased demand for education through greater awareness of its importance in determining the income status; or simply from the greater prevalence of schools.

Recent **fiscal problems** have reduced real public spending on education. Education spending has been cut through a salary freeze, sharp reductions in non-salary budgets (teacher training, curriculum development, maintenance) and greater cost recovery. Students are now expected to pay for school supplies and textbooks at all levels of the education system. Moreover, they pay nearly 70 % of boarding costs (lodging and food) in secondary school and 40 % at the university. These measures have been coupled with some initiatives to improve the targeting of education resources towards the poor. Poor students are exempt from all these costs. Despite the wage freeze, salaries still remain a staggering 80 % of total education spending. This wage share is amongst the highest in the region and reflects, in part, the constitutional right of all children to be educated in their native language, the specialised curriculum in higher primary and secondary schools. However, there is a **low teaching level**. This is reflected in student to teacher ratios being very low in higher primary and secondary schools relative to OECD norms. The high share of wage costs has crowded out spending on other vital areas such as teacher training, educational materials, maintenance and capital renewal. Even limited amounts allocated to non-salary spending are not fully realised as financing problems occur throughout the year.

3.2 Employment and active labour market policies

Addressing labour market problems will require adequate programmes focused on active labour market and employment policies. Special measures targeted at introducing employment incentives, decreasing unemployment through the fostering of employment opportunities, intensifying investments in the economy, implementation of entrepreneurship programmes,

financial and institutional support for the development of small and medium sized businesses, increasing joint ventures, attracting foreign investments, granting franchise and selective short-term borrowing should all be considered by the Government. Also, incentives should be introduced to legalise the unofficial employment. The National Strategy for Economic development determines the **basic policy guidelines** for restructuring of the labour market, including: employment services (giving information, mediation and consultation); training programmes (re-training and additional training) and job creation programmes (development of entrepreneurship in small and medium businesses).

An adequate implementation of **active labour market policies** will require a modern, flexible and efficient Employment Bureau. Therefore, the Bureau and its 30 regional offices should be restructured to meet the needs of the labour market and enhance inter-sectoral and inter-regional mobility of labour. Computerisation is also one of the prerequisites to realise an organised, service oriented and effective Employment Bureau capable of mediating between labour market supply and demand, identifying training needs etc. The Human Development Report 1998 is correct in suggesting that the Bureau should particularly concentrate on: supply (lists of vacant jobs) and demand (services for finding jobs). This will enhance high quality and efficient services, promote active market research, balance of supply and demand and intensify regional and sectoral mobility of labour.

While active labour market policy has an important bridging function, employment policy should support the **creation of new jobs**, particularly through: boosting output; stable and structurally matched economic development through infrastructure investments, fostering jobs creation, enhancing labour mobility, and minimizing adverse incentives; encouraging flexible forms of employment part-time employment, contractual employment, work at home, etc.).

4 Conclusions

As a consequence of the transformation in the country following independence, **negative short term developments** caused a high number of households to fail to provide adequately for their family members. This situation is a consequence of the drop in the number of employed people, an irregular payment of wages and pensions and certain benefits such as child allowances, unemployment benefit, changes in the ratio of employed to pensioners and the unfavourable climate within the country. Taking this situation into account, the Republic of Macedonia had to resort to measures to provide a safety net for its citizens. The number of households receiving social assistance is growing. In 1999, compared to 1996 it has risen by 27 % with budget allocations increasing correspondingly. The main recipients of assistance are the unemployed (90 %).

The economic transition and privatisation of companies have brought about the biggest shock to the labour market with a series of unfavourable and long term implications. Military activities in SR Yugoslavia, the Kosovo conflict and massive waves of refugees into the country in the first half of 1999 had **direct and indirect negative impacts on the unemployment situation**. Today, there is a paradox situation, with the number of registered unemployed higher than the number of registered employed by 15 %. There is a correlation between unemployment and education levels, on the one hand and poverty on the other. The most vulnerable

7 See: Focusing on the Poor, Report No. 19411-MK, The World Bank, 1999, pp. 35-48.

groups of the labour force are: unemployed, low qualified middle aged people who have lost their jobs, and first time young job seekers, people employed in companies with an uncertain future, households with no employed members, those self employed in the farming sector and multimember families in rural areas.

Over many years, the **Pension and Disability Insurance Fund** in our country has had deficits. In fact, the term "fund" is inadequate because, as in a majority of countries through the world, the pension and disability insurance systems in our country operate on a pay-as-you-go basis. In the short-run, the state implements programmes to overcome problems relating to payment of pensions, mainly by balancing income and expenditures. The programmes include measures for restricting the criteria for early retirement and disability pension eligibility, and for imposing rigorous measures for collecting contributions. In the long-run (within the next 12-15 years, with a sub-period of 5-7 years), the state pension system should **gradually transfer into a three component pension and disability insurance system**. The state will have an important role in: (1) implementing complex reforms; (2) running the public pension and disability insurance system and (3) regulating private pension funds. The public system will be the first component funded by compulsory contributions to the Pension and Disability Insurance Fund. Upon expiry of the first sub-period, this system should provide minimum pensions on a flat-rate basis (equal for all recipients). The second component will include compulsory additional pension insurance by payment of contributions into the public funds, as well as into private funds. Such funds, being more competitive, are expected to offer efficient allocation of funds and provide higher rates of returns, and over time, become a primary component. The third component is to be voluntary pension insurance run by private pension funds, including pension schemes offered by employers. The defined benefits fund determines benefits in advance.

The differences in income levels have a serious impact on the level of accessibility and **quality of health services** available to the poor groups of the population. Access to basic health care services, being among the fundamental human rights, enables the needy to sustain and improve the most important asset they have their labour. There are still illnesses associated with the living conditions in certain regions (rural and sub rural settlements), and typical to certain groups of the population (unemployed, elderly, disabled and rural population in general).

Reforms of the health care system will tap into the model of global financing system, the model of payment by providers of services as a prior condition to introduction of improved provision of services. Special emphasis is going to be laid on primary health care services, which are accessible to all patients, but also the level at which there are possibilities for improving the cost efficiency of services. These reforms of preventive health care will give rise to better access to health institutions, especially for the poor groups of the population living in rural areas with diseases believed to be the "disease of the poor". This programme also envisages a process of continuous introduction of new equipment into surgeries in undeveloped rural areas to ensure proper delivery of health services.

Reforms of the education system are being implemented in the Republic of Macedonia to produce positive qualitative and quantitative effects. The reforms are aimed at increasing rate of coverage of the population by educational institutions and thereby raising the general level

of education of the population. The curricula are being adjusted to respond to a market oriented economy. There are ongoing activities to reorganise secondary education, and there is preparation for the reform of higher education. Changing the role of the student in the educational process, attaining activity and interactivity levels should contribute to forming individuals capable of active participation in a system undergoing extensive changes in the field of economic and political organisation. There is a need of an increase in the number of institutions involved in the realisation of lifelong education. There is also a need for the setting up of educational institutions for adults which would be flexible in organisation and rich in working morphology. Provision of equity, or attaining a level of organisation of the educational system, will allow: catering for the individual needs of each child (especially gifted children and children with impaired development); adjusting to the needs of separate target groups, especially the members of discriminated groups on any grounds.

Selected references

Fondacija "Fridrih Ebert" (2000): "Zdrastvenoto i penzionoto osiguruvanj-opit na Republika Bugarija i Republika Makedonija", Albena.

Fondacija "Fridih Ebert" (2000): "Ekonomski i socijalni aspekti na nevrabotenosta vo Republika Makedonija i vo Republika i vo Republika Bugarija i pretpostavki za nejjino namluvanje", Skopje.

UNDP (1998): FR Republic of Macedonia Human Development Report '98, Skopje.

UNDP (1999): National Human Development Report Macedonia 1999, Skopje.

UNDP (1999): Human Development Report for Central and Eastern Europe and the CIS 1999, New York.

The World Bank (1999): FYRM Focusing on the Poor, Report No.19411-MK.

Montenegro

Goran Vujović
Journalist
Podgorica

1	The development of the social situation in the last ten years	113
1.1	Development of income and poverty	113
1.2	Development of the labour market	116
1.3	Extent and structure of unemployment	117
2	The reform of the system of social security	118
2.1	Health and health insurance	119
2.2	Pension schemes	120
2.3	Unemployment insurance	123
2.4	Other social protection schemes	125
3	Education and employment	127
3.1	Reform of the educational system	127
3.2	Employment and labour market policy	129
4	Conclusions	131

1 The development of the social situation in the last ten years

1.1 Development of income and poverty

In Montenegro (MN), as well as in the other countries in transition, social problems are one of the main issues. The process of privatisation, as a basic element in restructuring the Montenegrin economy, unavoidably led to a decrease in production, a narrowing of the production basis and a rise in the number of unemployed. Of course, it had negative impacts on social development trends. The economic development concept, on which Montenegro had decided, had few constructive solutions or positive results becoming instead an insurmountable obstacle for the improvement of the social situation.

The depth of the **social crisis** in the territory of the Federal Republic of Yugoslavia (FRY) is shown by the results of research done in 1996. According to the criterion of the consumer goods basket 28.9 % of the population was poor (those families that do not manage to cover the expenses of a consumer goods basket by their monthly income are considered poor). This was twice that of 1990 when the figure was 14.1 % of the total population of the Socialist Federal Republic of Yugoslavia (SFRY). The burden of poverty was particularly noticeable in towns and cities, where the number of poor rose from 13.2 % in 1990 to 32.1 % in 1996. At the same time, the number of poor in urban areas rose from 39 % in 1990 to even 70.5 % in 1996. Now, after the NATO intervention the situation is even worse.

In the late 1990s, the worsening of the relationships within the FRY, between the republics and federal government contributed to the aggravation of the political and economic crisis and the social problems of the population in Montenegro. Owing to this internal conflict that started in March 1997, Montenegro was exposed to the so-called internal economic blockade by the federal authorities and the Army of Yugoslavia (AY) that factually controlled the transit of goods through its international borders as well as through its internal border between the two republics. Thus, in spite of lifting the sanctions of the international community, the **Montenegrin economy** remained **isolated** even after the end of the NATO campaign against the FRY. And this is still the case even after the recent ousting of the president of the FRY, Slobodan Milosevic.

Therefore, Montenegro whose economy was integrated within a relatively developed economic system compatible with the functions of the basic development trends of the former SFRY, has become from the most of its traditional and potential economic partners isolated as well as import-export dependent. In the process of privatisation foreign capital has not been included and access to international financial organisations is still being denied to Montenegro. Of course, this has resulted in a decrease of Gross National Product (GNP), which has halved in the last ten years (see Table 1).

Table 1: Social production (per capita) according to the concept of economic balance and the concept of national accounts for the period 1989-1999 (in permanent US \$ from 1980)

Year	Growth rate	GNP in million \$		Number of Inhabitants	GNP per capita	
		Eco. Bal.	Nat. Acc.		Eco. Bal.	Nat. Acc.
1989	0.64	1406.9	1574.1	609.0	2309.4	2886.8
1990	10.49	1259.3	1574.1	612.7	2055.3	2569.1
1991	10.59	1125.9	1407.4	616.6	1826.0	2282.5
1992	27.00	821.9	1027.4	624.0	821.9	1027.4
1993	35.00	524.2	655.3	631.9	829.6	1037.0
1994	4.80	549.3	686.6	635.3	864.6	1080.8
1995	2.20	561.4	701.8	638.6	879.1	1098.9
1996	33.90	751.7	939.6	643.0	1169.0	1461.3
1997	1.50	763.0	953.8	647.4	1178.6	1473.3
1998	3.00	786.0	982.5	651.3	1206.8	1508.5
1999	7.50	727.1	908.9	655.2	1109.7	1387.1

Source: Vidak Bjeletic, "Gross national product and its realisation in Montenegro", Podgorica, 2000

From Table 1 we can see that the key moment in the process of **GNP decrease** in Montenegro was the time of inflation growth and quasi war economy during 1992 and 1993 (we have to bear in mind that the amounts shown according to the concept of economic balance were enlarged by 25 %) and hyperinflation even reached 123,751,836,168,522 percent. In the period 1989 to 1993 the gross national product fell but it grew every year after 1993 apart from in 1999. **GNP per capita** has gone down from \$2309.4 in 1989 to \$829.6 in 1993, which was influenced by a rise in the number of inhabitants. Now, it seems that Montenegro has entered a period of economic stagnation. The possibilities of moving toward from this standstill are connected with the needs to re-establish co-operation with its neighbours, to introduce foreign capital in the process of privatisation, to carry out technical and technological improvement in business and production and to develop better the management of human resources.

The consequences of the economic disaster have influenced the payments of monthly **income** as well. Out of the total number of 114,749 employed, in September 2000 95,501 workers or 83.2 % received salaries at the republic level. A large number of companies applied to the Ministry of Labour and Social Care in order to get loans to pay off the guaranteed salaries that had not been paid off for 1996 and 1997. The necessary amount of money for them being about DM 1.5 million; for 1998 and 1999, the amount of money necessary is even DM 9.2 million for 119 companies with 9,970 employed. Recently, 312 companies with 29,410 employed (these companies have delays in payments longer than six months) applied to the Association of Independent Trade Unions (AITU) or to the Ministry mentioned above in order to support their employees with food.

This shows very clearly that to be employed in Montenegro does not necessarily mean being socially secure. The average net salary for September 2000 was DM 191; in the period of the first seven months of the same year it was DM 178, and in the economic activities it was

DM 161 and DM 148 respectively. Despite a certain difference in wages between economy and non-economy activity, with the advantage to the latter, the **average income** of DM 127.80 monthly shows that the population is to a great extent equal in poverty: if we compare costs of DM 566.06 per month which are necessary in order to buy elementary goods and to pay for the energy for a four-member family (measured on October 27, 2000).

The registered **decrease in real income** in the past decade is impossible to define owing to bad methodology of registration or daily inflation effects and unrealistic official exchange rates. But, since the end of 1995 (when a new system of negotiating the lowest cost of labour started according to the new General Collective Contract concluded between the Trade Union, the Government and Chamber of Economy), the change in salaries can be measured on the basis of the change of the lowest cost of labour complementary to it. Thus, in January 1996, the lowest cost of labour was 180 dinars, which was about DM 52. Since then, the lowest cost of labour increased by July 1997, the equivalent of which was about DM 94. Since then the lowest cost of labour has decreased and in September 1999 it was about DM 50. In 2000, the lowest cost of labour again rose up to DM 80 during the first ten months.

The structure of the **household budget** in the ten-year period changed to some extent in the period from 1989 to 1999 and it looks like this:

Table 2: Household budget expenses

	1989	1992	1995	1999
Used funds	100.00	100.00	100.00	100.00
Food	58.32	58.60	56.10	53.10
Drinks and tobacco	6.30	6.64	7.20	7.10
Clothes and footwear	8.71	6.92	7.90	5.10
Accommodation	1.04	1.14	1.50	1.90
Heating and electricity	6.09	5.55	5.30	7.50
Household furniture	1.66	2.40	2.00	1.50
Hygiene and health	2.11	4.08	5.30	5.10
Education and pastime	2.91	2.73	2.30	1.90
Traffic and telecommunications	4.14	3.76	5.50	6.90
Other goods and services	0.92	1.27	2.10	2.00
House/flat expenses	1.50	0.96	1.50	0.90
Savings	3.82	4.74	1.60	6.20
Other expenses	1.67	1.21	1.70	0.80

Source: AITU

The change in the household budget structure shows a slight decrease in food expenses, clothes and footwear, household furniture, education and pastime and other expenses. On the other hand, the expenses of drink and tobacco, accommodation, heating and electricity, particularly hygiene and health, traffic and telecommunications and other goods and services

have all increased in the total household budget. The whole period is characterised by permanently high levels of food expense within the total household budget.

Acknowledging mere survival, the state allowed the development of semi-legal and illegal businesses and trade, and it tolerated rather wide range of informal economic activities of the citizens. According to some sources, the **grey economy** in the first part of the last decade made up a half of the gross national product and today it plays an important role in reducing social tensions.

Most of the current problems in Montenegro have the character of **structural problems** and it may be very difficult to solve them in the short term. Apart from the very strong influence of politics, the other problems are: lack of a long-term economic strategy, unsatisfactory results from the privatisation process so far, a socially unacceptable division in the national wealth, growing poverty, economic destruction of the progressive social classes in the dynamic of social differentiation (it especially refers to well-educated people, scientists, teachers and professors etc.), a high level of state bureaucracy and degree of the state's participation in all spheres of socio-economic policy, inefficiency and non-professional work of the administration, a lack of market economy institutions, an absence of efficient control and regulatory mechanisms, regional development that is not harmonised, the widely spread and organised flow of the grey economy, in which a relatively large number of people is involved with high levels of "big" and "small" corruption etc.

The general economic crisis has resulted in an increase in the number of inhabitants living in a state of social need. It is estimated that the deteriorated relationships within the FRY, the unfavourable international position of Montenegro, the low level of economic activity and so-called personnel problems, not including other unfavourable internal and external factors, will play the greatest part in conducting the conception and the strategy of any future development, including those developments in the field of social security.

1.2 Development of the labour market

The crisis reduced the economic production base in a drastic way. The **number of jobs** in production sectors reduced by about 50 %. During the time of so-called full employment, until 1990/1991, there were about 130,000 workers in economic activity, and today, according to data from the Republic Bureau for Statistics this number is only 78,634. At the same time, the number of employed in non-economic activity rose! It is interesting that the rise in the number of the employed was most registered in the public sector, education and culture (these are financed from the state budget but also through international projects), but in the branches of health and social security the rise was less substantial. These branches of the economy in Montenegro, which are re-distributive in character and through which the budget and foreign support are distributed to the groups of individuals, probably suffer greater pressure in the battle for jobs because the monthly income is bigger and grows more rapidly (Table 3).

Table 3: Employed in Montenegro – annual average					
Employed (annual average)	1989	1992	1995	1999	VIII 2000
Montenegro	163 351	133 587	125 399	115 328	114 768
Economic activity	131 543	104295	93126	80423	78752
Non-economic activity	32808	29292	32273	34905	36016
Source: AITU – Association of Independent Trade Unions of Montenegro					

The reduced number of employed was largely the result of the companies' bankruptcies (in the course of the last ten years more than 80 companies have gone bankrupt) or the dismissal of workers as technologically redundant labour. In mid-1999, a surplus of about 20,000 workers was estimated (this figure, according to the data of the AITU refer to the employed who are on compulsory leave, who are not sufficiently qualified or are too old to have any chance of getting a job in the labour market). The destruction of the economy resulted in the rise of the unemployed: the lists of the Republic Bureau for Employment (the RBE) during 2000 (the first seven months) contained an average of 85,657 persons, which means that if we include the retired and those on compulsory leave, we have 176,000 adults in Montenegro burdening 115.000 employed within the whole country.

1.3 Extent and structure of unemployment

The labour market in Montenegro is characterised by **enormous unemployment** and **unused labour**. These problems have escalated so much in the past ten years that a large number of inhabitants face abuse of their elementary human right – the right to have a minimum of economic and social security. The picture of the social and economic situation looks like this: unemployment is continuously growing and employment is decreasing; there is a lot of technological and economic redundant labour and little employment in agriculture; a lot of workers on forced and so-called unpaid leave etc.

It is interesting that the number of unemployed in Montenegro rapidly increased while a series of transitional laws on restructuring, transformation and privatisation were brought in. At the time when the first federal Law on Property Transformation was brought in (1989) there were 48,000 unemployed in Montenegro. This number increased to 63,000 at the time the Law on Property Transformation was passed in Montenegro. In 1997, the process of transformation turned almost half of the public companies into state-owned companies and unemployment rose to 64,000. Finally, in 1999 and 2000, when the process of transformation was practically over, unemployment rose to more than 79,000.

Considering the **qualifications** structure of the unemployed we, we can see that unqualified workers make up 32 % (I specialist's training degree); persons with III and IV specialist's training degree make up 56 % while those with university education make up 2.7 % of the total number of unemployed. The structure of unemployed in accordance with **years of service** looks like this: persons looking for a job for the first time make up almost 60 % of the total number of unemployed; those with over 3 and 5 years of service make up 4.8 %; those

with over 10 and 20 years of service make up 7.5 % and those with over 20 years of service make up about 3.4 %. According to the **time spent waiting for a job** the situation looks like this: persons waiting up to six months make up 13.6 %; those waiting more than one to three years make up 24 %; those waiting from 5 to 8 years make up 13.9 % and those waiting for a job for more than 8 years make up 19 % of the total number of the unemployed. The **age structure** of the unemployed looks like this: those from 18 to 25 make up 28 %; those from 25 to 30 make up 26 %; from 30 to 40 27 %; from 40 to 50 13 % and over 50 4.3 %.

2 The reform of the system of social security

The system of **compulsory social insurance** in Montenegro (and the FRY as well) includes: health insurance, pension and disability insurance, and unemployment insurance. All the three programmes are organised and administrated separately by competent state institutions (funds or the RBE, when we talk about unemployment insurance). Additionally, there are a series of programmes that are part of the **social security system** and are financed from the budget. These are: a special system of disabled and veteran's protection, children's and mothers' protection system (children's allowance, mothers' allowance, paid maternity leave, subsidising daytime institutions for children, pre-school programmes etc.), the system of protection of schoolchildren's and students' standards of living (scholarships, subsidised food and accommodation of schoolchildren and students etc.), public welfare and the social security system (public welfare, social security institutions etc.).

The funds for **financing social security** are obtained through taxes for social insurance, which is often used as a term for all three kinds of taxes (for health insurance, pension and disability insurance, and unemployment insurance). These taxes, according to the Law on System of Public Revenue of the Republic of Montenegro, have the character of public revenue and the amount is determined by law. Since there is an institution of voluntary social insurance, the amount of taxes is determined by the organisation of compulsory social insurance. The taxes for social insurance are the income of the corresponding funds: the Pension and Disability Insurance Fund, the Health Fund and taxes for unemployment insurance belong to the Republic Bureau of Employment.

	1994	1995	1996	1997	1998	1999	2000
Total public consumption	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Republic Budget	48.2	39.9	40.4	43.8	41.0	45.2	49
Municipality Budget	8.4	8.7	7.8	63	4.8	6.2	7.7
Pension and disability Insurance Fund	26.8	33.2	33.1	31.5	35.4	29.1	27
Health Fund	14.8	15.0	15.7	13.9	14.5	14.5	13
Republic Bureau for Employment	1.8	13	0.9	13	13	1.1	0.7
Other		1.9	2.1	3.2	3.0	3.9	2.6

Source: Vidak Bjeletic, "Gross National Product and its Realisation in Montenegro", for 2000 – AITU

The taxpayers for social insurance are employed and self-employed, employers (legal persons and entrepreneurs that employ workers) and other persons (farmers, volunteers, schoolchildren, university students etc.) who are socially insured. Other taxpayers for social insurance are persons who get allowances, e.g.: work on a voluntary basis, have professional training, have additional training or vocational re-training, do temporary jobs etc. In contrast to the insured and employers there are not continuous taxpayers.

Taxes for social insurance in Montenegro are the following (see Table 5). The basis of taxes for social insurance for the employed and employers is gross income; the basis is calculated by multiplying net income by the coefficient as determined on the basis of all taxes.

Taxes for insurance	Net income DM	Gross income	% of taxes employed and employer		Amount of taxes		Total
Pension	200	327.8	12	12	39.3	39.3	78.6
Health	200	327.8	7.5	7.5	24.6	24.6	59.2
Unemployment	200	327.8	0.5	0.5	1.64	1.64	3.28
Total					70.54	70.54	141.1

2.1 Health and health insurance

Health care and health insurance in Montenegro belong to **critical areas** of social security if we consider their reform, especially if we have in mind the restriction of rights. For the time being, there are no clear criteria regarding the need of reform this part of the system. Like some other programmes of social policy in the recent period, policy agents have sought co-operation with the Republic of Slovenia, above all because of the belief that its experience in the reform of the social security system is complementary to that of Montenegro.

Health insurance in Montenegro is established by Republic Law which states that all citizens have the right to health insurance, they all pay taxes in accordance with their financial means, they all use health services in respect to their needs and all citizens have the same rights to effective health care. This system of health care dates back to the end of 1990 when the SIC (Self-management Interest Community) system ceased to exist and when the Health Fund was established. In this way, Montenegro has become one health region with 30 public health institutions. The funds come to one place, there is only one health and investment policy etc.

In the last ten years priority has been given to **primary health care**, staff training, observing scientific and research activities and the development of an information system. This means the transformation of the most important institutions into the Clinical Centre of Montenegro

¹ In the examples given (in the charts that follow), gross income is calculated by multiplying net income by the coefficient 1.63934, which is an example of paying taxes in non-economic activity that has fewer liabilities because the companies that do economic activities have to pay taxes to the Chamber of the Economy (the taxes are not high).

and the National Health Institute, which should serve as a scientific and research base for a future Medical School. However, this transformation has come to a halt for an indefinite period of time.

The employed, self-employed, farmers, students, pensioners, persons looking for a job etc. and members of their families have compulsory health insurance. Financial rights on the basis of health insurance, first of all compensation for sick leave, refer only to the employed and self-employed. The insured are all the persons that work (in public, private or combined sector), persons who are involved in agriculture, pensioners, persons who are in the evidence list of the RBE, persons in a state of social need, as well as the members of their families if they are not insured on their own basis etc. In principle, health care is free, although the users now have to contribute to the expenses of health care, which is rather symbolic and those who enjoy compulsory health care do not have to pay for it (schoolchildren, persons over the age of 65, persons who have the most serious diseases, those who enjoy social and protection rights etc.).

Programmes are organised and administrated by state funds for health insurance. Patients are given health services only by the institutions that are state property. A sudden decrease in funds invested in health care from 1991 to 1994 (the rights remained the same), reduced the scope and quality of services and caused the destruction of the health infrastructure, since there are no sufficient funds for necessary investments and maintenance.

At the moment, there is a plan to **introduce voluntary insurance**, in addition to the existing insurance, and to reconsider the Decision on Participation. The plan means providing additional funds and improving the level of health care in that way. But this restricted adaptation can be seen as being forced by the weak material base and very bad quality of life in Montenegro.

2.2 Pension schemes

Pension insurance in Montenegro is provided through the **Fund of Pension and Disability Insurance (PDI)**. Expenses are financed from the above mentioned taxes as well as by state subventions. Rights are indexed automatically in accordance with an increase in salaries. Relevant experts evaluated the fund as expensive, irrational, inefficient and economically unsustainable, therefore, its reform is aimed at adjusting it to its real material capacity.

The Institute for Macroeconomic Research in Podgorica, at the request of the PDI fund conceived a Project of transforming the Pension and Disability Insurance Fund to be realised within a ten-year period. But concrete steps were not taken, so we must consider this attempt of reform closed. Other significant reforms of the PDI have not yet occurred. Among other reasons, for this may be the fact that a large number of new users would end up in a hopeless material situation because of the bad financial basis of the Fund. However, it is difficult to say whether this was the real reason to **postpone the reform**. But, it is the fact that the PDI fund has had a specific political importance for the authorities in Montenegro.

According to the Law on Pension and Disability Insurance, this insurance includes **compulsory and voluntary pension and disability insurance**. The first insurance provides rights in

the cases of old age, disability, death and injury and it is based on work. The other insurance, which is based on a contract, provides rights in case of old age, disability, death or injury or more rights than established by the Law, as well as some other rights from this insurance. Compulsory pension and disability insurance includes all the employed (in the public, state and private sector), self-employed and private entrepreneurs. The system is characterised as being a generous system of rights; as a result there were 84,780 pensioners (38 % old-age, 34 % disability and 28 % family pensioners) in Montenegro, according to the data of September 2000. The insured have the **right to old-age pensions** with the age of 60 (men) or 55 (women) and have at least 20 years of service. The insured also have the right to old-age pensions when they turn 65 (men) and 60 (women) and have at least 15 years of work service insurance. The insured have the right to old-age pensions when they have 40 (men) and 35 (women) years of work service insurance and are at least 50.

An old-age pension is calculated from the base of a monthly average salary, i.e. from the base of the insurance (of the insured) in a period of any consecutive ten years most favourable to the insured (pension basis). In order to determine this pension base we take the average monthly salary and any wage supplements that the insured had in accordance with the law and collective agreement. The amount of an old-age pension is determined from the pension base according to the percentage determined from years of service and it is: insured (men) with 15 years of service receive 35 % of the pension base and 2 % more for every additional year of service; insured (women) with 15 years of service receive 40 % of the pension base and 3 % for every additional year of service (up to 20 years of service) and 2 % for every additional year of service (over 20 years of service). The old-age pension can be up to 85 % of the pension base.

Those insured who have lost their work ability or those insured employees and insured self-employed persons who still have work ability but who due to old age do not have the right to additional vocational re-training have the right to a **disability pension**. A disability pension is determined from the pension base in the same way as it is determined for an old-age pension. The disability pension, in case of disability caused by an injury at work or occupational disease, is determined as 85 % of the pension base. The right to a **family pension** can be realised by the members of a family of: a deceased insured person who had at least five years of insurance or at least ten years of service or if he/she met the conditions for old-age or disability pensions; a deceased person who had an old-age or disability pension or the right to it on the basis of remaining work ability. If the death of the insured person was the result of injury at work or from an occupational disease, the members of the family have the right to the family pension, regardless of the years of service of the insured person or that person. The amount of the pension is determined from the base of old-age or disability pension that the insured would get at the moment of death and the percentage is determined in accordance to the number of family members that have the right with the pension. The insured have also the right to pecuniary compensation for bodily injury.

The average pension for August 2000 was DM 188 or about 95 % of the average salary in this month. The Fund pays off 104,325 people according to different legal compensations. This data shows that every sixth inhabitant of Montenegro or every fourth adult citizen gets some compensation from the PDI Fund. Out of the total number of pensioners, 48,670 of

them have pensions above the average. Legal compensations dominate with 94 % of total expenditure. From total income of the Fund, the largest proportion (60 %) is from taxes that are determined at the level of 24 % of the gross income. The other funds, which total about 40 %, are provided from additional income (introduced by the government of Montenegro), i.e. taxes, customs duty and excise that have been directed to the Fund in order to reduce the financial problems that arose as a result of the Federation's not carrying out its obligations to Montenegro.

The Law on Federation's Discharge for veterans pensions has been in force since 1st January 1974. According to this law the Republic PDI Fund gets financial support from the Federal Budget (1) for the pensions of war veterans, which are available and (2) for meeting deficits due to the specific structure of pensioners and the economic underdevelopment of Montenegro. This amount is determined from the difference between the income of the Fund calculated in accordance with the average rate of tax burden for the PDI in the FRY and the total amount of the expenditures for the PDI. The listed funds for the PDI are provided from the budget of the Federation as an advance payment, and final settlement is made with an annual balance sheet. The **current debt of the Federal budget** to the PDI for 1997, 1998, 1999 and the first six months of 2000 is DM 73,3 million. This amount is the difference between the concrete established and calculated commitments of the Federation and the funds that Montenegro directs to the PDI Fund.

Currently, the Fund is late in paying of two pensions, the reason for this irregularity being disharmony between the power of the Montenegrin economy and enormous growth of rights with respect to pension and disability insurance. The fact that the increase in pensioners has not been followed by an appropriate employment growth, or increased productivity and profitability of economy, has resulted in the Fund's reduced capability in answering all the requests that derive from already acquired rights by using its own financial potential. The larger number of retired people is also a result of using the pension system as a means to solve the problem of redundancy and staff problems that emerged from the process of transformation and from inadequate functioning of the economy. The population is growing old and this requires measures that will prevent or negate the problems that the aging process brings along.

The experts from the PDI Fund think **a reform of the pension and disability system** is necessary in accordance with the changes happening in Montenegro. This means the establishment of private funds, changing the legal basis from which the rights derive and reducing the payment basis for paying off rights etc. As a major task, difficulties have to be overcome which derived from the old system and a stable economic basis has to be created, i.e. a stable source of income in order to pay pensions and other legal compensations regularly.

Currently there are two major problems: (a) the problem of finding extremely large funds to pay off the commitments and to eliminate deficits and (b) the problem of re-establishing a vital working population who will be able to improve the Fund's income by its work. These problems are complicated further if we consider the fact that there are a lot of pensioners who are relatively young who will need financial support for a long time. If we bear in mind the increase in life expectancy we find that it is necessary to **increase the pension age limit** as an element of balancing the right to a pension.

Considered in the long term, the system of automatic indexing of rights according to salary and years of service is an additional burden on the Fund, whose bad debts from 1994 to 2005, under the current conditions, are estimated to be about DM 4 billion. Pensions are determined in accordance with the best average of monthly income in the most beneficial ten years of work. It is still considered that we should keep this system until the end of the transition process (privatisation and restructuring of companies), but we should also consider the possibility of **determining the pension on the basis of the salary from the whole working life** and not only from the ten most convenient years. As an explanation for this proposal, we can see that the amount of salary in Montenegro did not depend on individual work but most frequently on the material and social position of the company in which the insured worked.

The Fund states that it is necessary to define and redefine the elements of pension and disability insurance more precisely and these elements are: the type of social security, field of social security (kinds and scope of rights), persons being part of the system, conditions for acquiring rights, the amount of salary and reconciling. A successful realisation of pension and disability insurance reform encompasses openness and flexibility, also the expert professional training and financial support of the international donor community.

In relation to this and according to the Fund's information, a **draft of a new law** on pension and disability insurance has been prepared and given to the Montenegrin government to consider. The law is based on the aforementioned remarks, but, as such, it does not have the character of system or reform law. It is considered that the other part of the reform and the introduction of voluntary insurance would become meaningful only taken together with further development and stabilisation of the economy. The creation of private pension funds requires the existence of an active and healthy financial market where qualitative market mechanisms take part, but such a market does not exist in Montenegro. However, the reform should not be cancelled as it is necessary to solve problems during this process.

2.3 Unemployment insurance

Workers in both economic and non-economic activities in Montenegro have unemployment insurance. This provides a series of programmes that, on one hand, provide social security for workers while they are looking for a job (passive measures, pecuniary compensation) and, on the other hand, help them to find a job with a series of active measures. The programmes are funded from the taxes of employers, the employed and state transfers. The insurance is administered by the Republic Bureau of Employment (RBE) of Montenegro. The programmes consist of:

- a) employment mediation: unemployed persons and other workers are provided permanent expert help in finding a suitable job corresponding to their abilities. Organisations and employers are provided constant expert help in satisfying their demand for workers.
- b) preparation of workers for employment: through provision of occupational orientation, training, vocational re-training; employment of trainees, incentives for new jobs also means support for realisation of the programme of Independent Trade Union of Unemployed aimed at finding job for the unemployed.

- c) providing material and social security for unemployed persons: by maintaining worker's right to pecuniary compensation during vocational training, vocational re-training or advanced training.

The current law that regulates the rights of unemployed persons is the **Law on Employment and Unemployment Insurance** from 1990, which was amended and supplemented in 1991, 1992, 1994 and 1995. However, some essential changes in relation to the insurance of the unemployed have not occurred. It is difficult to find out the actual level of social needs of the population, because of very liberal legislation in the field of protection of the unemployed. The number of unemployed in Montenegro in 1990 was 53,744 people according to the lists of the RBE, and in 2000 it rose up to 85,657. However, according to the estimate of the RBE we are talking only about **officially registered unemployment**, which does not correspond to the real situation.

It is estimated that several groups of persons are on the RBE's lists who do not belong there. These are temporary employed people, people working on the black market, farmers who do not want to use the type of insurance that belongs to them on the basis of their agricultural work, unemployed persons who are not looking for a job or reject offered jobs, owners of companies, entrepreneurs, students and pupils. According to the rough estimate of the RBE, the proportion of these categories in total unemployment is up to 40 % and the reason for their regular presence on the files is health insurance that they accomplish in this way. By enjoying social security rights, which do not belong to them, these groups of users are preventing help from reaching those people who need it most.

The **right to pecuniary compensation** is granted to those persons who were continuously employed for at least 9 months or for 12 months with interruptions during the last 18 months (henceforward: length of insurance) if they apply at the RBE within 42 days from the day they stopped working. Pecuniary compensation is 65 % of the lowest labour cost for the simplest work in the month when it is paid and is received by two categories of the unemployed:

- those who stopped working against their own will. They are paid compensation for a period of 3 months to one year (depending upon their years of service). During the time they are being paid compensation, taxes to the PDI are also paid according to the Law on Benefits for Social Insurance and this time is recorded in their employment booklet as length of insurance. Older unemployed persons who have more than 30 years of service enjoy the right to compensation until they become employed or retire.
- those disabled that are trained for particular jobs in specialised schools. They are paid compensation during the period of waiting for a job, but taxes are not paid to the PDI because the compensation is not realised on a work basis but on a disability basis.

In August 2000 there were 2178 persons (in December 1999 2100) receiving compensation, 556 of them on a disability basis. The other rights on unemployment basis are enjoyed by all unemployed persons unconditionally. The governing board determines the amount of monthly pecuniary compensation for the month in which it is paid, which is calculated according to a percentage of minimum salary in the Republic. This compensation is now DM 52. Paying compensation continues even on the expiration of time to: unemployed persons who the RBE sent to advanced training, re-training or additional training until the expiration of time for

advanced training, re-training or additional training. It is also paid in case of work inability according to health ability and health insurance regulations; during pregnancy and maternity leave and during the period in which a woman, in accordance to employment regulations, has the right to reduced working hours after giving birth.

Programmes in case of injury at work or occupational diseases are organised as a part of health insurance (pecuniary compensation during temporary work inability and free medical care) and pension and disability insurance (disability pension and other rights with respect to disability insurance). At the end of 1998, the first system law on the Republic level was adopted. Legal provisions on **safety at work** were previously a part of Employment Law. This law regulates safety at work; periodical medical check-ups; jobs with special work conditions; organising work related to safety at work; training of employees; first aid; files; employer's duties to labour inspection; rights, duties and responsibilities of the employed and employer etc.

In mid-2000 a **draft of the new Law** on Employment was completed and given to the Ministry of Labour and Social Care for analysis. The draft law provides more favourable measures of social security for the unemployed while waiting for a job and raises the possibility of creating a clearer picture of unemployment in the Republic by eliminating those categories that do not belong on the files and including only those actually looking for jobs. It also gives special protection to unemployed disabled persons who are waiting for a job, to older people with more than 25 years of work service who are less likely to find a job, bankrupt companies' workers and those workers made redundant by technology.

2.4 Other social protection schemes

Social security in Montenegro is regulated by the Law on Social and Children Security and other relevant legal regulations. According to the Law, it is enjoyed through institutions (state-owned, mixed or private property). The goal of social security from the standpoint of the existing legal framework (which reflects the level of state interest and estimates citizens' needs in this field) is providing minimum social security to those citizens that do not have enough funds for living and to those who are unable to work. The **rights of social insurance** are: (1) the material welfare of a family, (2) the right to professional training (3) accommodation in the institution of social security or to other family, (4) pecuniary compensation for care and help of others, (5) health care and (6) funeral expenses.

Besides, Montenegro might (it is not, therefore, obligatory) provide additional social support that consists mainly of one-time loans, advice about domestic-legal relations etc. The user of social security is the family. Family means marital or illegitimate partners, legitimate or illegitimate children and other close cousins and some more distant cousins.²

2 There is a series of conditions that Montenegro prescribes if a family or a family member wants to effectuate its right to social security. We consider that, for the purpose of the topic and goals of this study, it is not interesting to elaborate this in detail because it can be done at a later date (in special section of this study).

We consider it useful to note that acquiring and realising the right to material compensation is related to the income of the family in a particular quarterly period. If the income of the family (of all the members) does not reach the level as designed by law (40 % to 80 % of the average salary in the Republic in a particular quarterly period) the state subsidises such a family through the programme of social security up to the level of 40 % of average salary in the previous quarter (in September 2000 – DM 80) for a one-member family, and up to 80 % (in September 2000 – DM 160) for families with five or more members. Bearing in mind the very low average of salaries and the obvious increase in the cost of living, this means that such material compensation is very small.

Table 6: Review of the number of beneficiaries of social security rights – September 2000		
Right	Number of holders of a right	Number of beneficiaries
Material compensation for a family	8,024	16,198
Children's allowance	79,096	147,893
Care and help of other person		4,720
Accommodation in a family		169
Accommodation in different homes		926
Compensation on the basis of a newborn baby		7,096
Source: Ministry of Work and Social Care – Social Security Department		

Children care is based on the obligation of the state to provide support to a family in order to stimulate birth rate and to create equal conditions for the care, upbringing and preparing of children for normal psychophysical development. The rights included in children care are: children's allowance; compensation for all the necessary things for a new-born baby; recreation of children and having food in student's kitchens.

The right to child allowance is enjoyed by each citizen, as well as foreign citizens working in Montenegro. Currently 147,893 children receive child allowance. Although the Law itself is universal and encouraging, this allowance is very small. The amount of the child allowance is calculated on a monthly basis of minimum salary of the users of public revenue in the Republic for the month during which it is paid and it amounts to: for children of pre-school age 10 %; for schoolchildren that attend elementary school 17 % and for high school children 25 %, which now amounts to DM 8; DM 13.6 and DM 20 respectively. Children with no parents, children of self-supporting parents, children whose parents are beneficiaries of material compensation and children who have small problems in development and attend special schools or special classes in regular schools receive child allowance of 30 % of minimum salary which amounts to DM 24. Children with physical and psychological problems who can not be prepared for independent life or work even under special conditions receive child allowance of 40 % of minimum salary.

Parents have the right to compensation for all necessary things for a new-born baby. The amount of compensation equals two minimum salaries (DM 60 in September) of beneficiaries of public revenue in the Republic at the month of child's birth. Apart from these legal rights Montenegro can, according to its potential, provide other kinds of support, especially support

for buying of school textbooks and other things for school. Children should have sports and recreation, entertainment and cultural and educational activities and institutions for recreation of children up to the age of 15 are provided and financed by the State Budget. Children with no parents and children whose parents are users of material compensation are provided expenses for food in children's kitchens from the budget of the Republic through republic administrative authorities in charge of social security and children care. Within the programme of social security there is also maternity leave compensation, the right belonging to every person during maternity leave up to one year of a child and half working hours up to three years of a child. This right can also be acquired by a father or the one who adopts or a guardian.

The rights on social security are enjoyed in accordance with legal procedure, at the request of a person who is in a state of social need or at the request of his legal counsel or social work centre. The social work centre of the municipality where a person lives decides on the request in the first instance, and in the second instance it is the republic authority in charge of social security and children care – Ministry of Labour and Social Care. Social security and children care are mostly organised by public state institutions: social work centres, institutions for children and youth accommodation, institutions for the accommodation of the old and adults and institutions for recreation of children.

The law states that certain jobs related to social security and children care can be done by citizens. These jobs include providing accommodation, providing food and accommodation to children with no parents, to the old and adult disabled persons with no family, to neglected children and youths; and providing house care and help to the old and disabled. In all cases, the institutions and citizens that do work related to social security are subject to state control as carried out under the supervision of the Ministry of Labour and Social Care.

3 Education and employment

3.1 Reform of the educational system

Complementary education was required during centralised management of the economy as based on the system of big strategic companies and, therefore, apart from standard education, we had so-called specialised training. The traditional way of employment in Montenegro and the SFRY was based on personnel planning. Its aim was to make personnel planning easier and it included education of young people for specialised professions (crafts) within the economy, the public sector etc. This way of education proved to be inefficient and limiting in relation to horizontal and vertical mobility. Thus, it proved to be an inadequate way of fighting growing unemployment, which was not anticipated.

It has been characteristic of Montenegro that it was only lately that **reform** steps of the educational system were discussed in state institutions, although all competent persons are aware of the disadvantages of the present system. The stress is laid on its **gradual change**. We can justify this point of view if we consider the very bad experience with radical educational reforms in the SFRY but also with the fact that there has been no strategy of education development. Some ad hoc changes that happened in 1990s were practically forced by the new situation in which the school system found itself, as a result of the disintegration of the SFRY.

So Montenegro announced its limited will to do something for the quality of education at the beginning of the 1990s. Then, in 1991, the Law on High School Education was changed. But apart from a series of changes and amendments to this Law no concrete steps were taken. A significant result which brought this Law is that finally workers universities were closed. They used to be the basic institution for the education of adults in the old educational system. Those that survived now work on a market basis. A basic disadvantage of these universities was the lack of quality.

In the legislative system everyone has the **right to an equal education**; primary school is compulsory and you do not pay for it. Members of national minorities have the right to education in their own mother tongue. Private education in Montenegro is possible, but the scope is limited to some courses, and it is most often found at pre-school and additional education levels. However, not all social groups have the same rights regarding access to education. This especially refers to people living in villages, women, adults and members of certain national minorities (Roma people, etc.).

The situation in the educational institutions is almost always very poor. There is no defined strategy of education in Montenegro. Until recently, there had not even been a specialised institute to study the development of education and the educational needs of the society. Therefore, if we consider its state, education is archaic, in a very difficult material situation and insufficiently funded. A decrease in investment in this field can be seen in all categories of education – schools and equipment are in very bad condition, salaries of teachers are very low and modern equipment for teaching processes are inaccessible.

Therefore, in Montenegro there is still predominant a **strictly centralised, rigid educational system**, without informal educational strategies for development in this area. Recently, it has been further emphasised that the unemployment problem in Montenegro is the result of inadequate or poor quality of education. Educational standards incompatible with the needs of transformation and privatisation of the economy as well as with the global standards in business, communication and technology. The new draft Employment Law which is being studied at the Ministry of Labour and Social Care contains initiatives and a series of necessary measures for educational reform with special emphasis on high school, specialised education and the education of adults. This initiative has been adopted and some concrete steps have been taken.

The National Observatory of Montenegro has been founded at the RBE and its task is to deal with the unemployment problem, especially with the relationship between education and employment from a scientific aspect. Within the framework of the so-called partnership between the Ministry of Labour, Ministry of Education and the RBE, there is a **new educational policy** regarding concrete demands of employment. The project has just been initiated, so it is very difficult to talk about results. It is being carried out under the control of ETF from Turin, which supports and controls the activities. An EU project titled "Reconstruction" initiated more open talks about the reform of the complete educational system. DM one million is reserved for the revision of the present system and it will be carried out in Montenegro by the Ministry of Education and the British Council.

The project for the training of the RBE advisors (in Montenegro and Slovenia) is over and these advisors are now supposed to deal with the unemployed directly in accordance with a new active policy of employment. The new doctrine presupposes self-initiative in self-employment and education of the unemployed, their active participation in deciding their own future and support for the so-called process of **permanent learning**. Until now, only re-training and additional training for a small number of persons was required, who took a rather passive part in the whole process.

Apart from these attempts, in the past two years some small programmes, different sorts of training and courses have been completed. These were courses for computers, secretaries, fishermen, three-month-courses for welders, foreign languages etc. Although not very many people attended these courses, we can say that their basic success lay in the fact that they showed that additional education in accordance with real need offers more job opportunities. However, the initiatives given by the new approach to education still do not have an impact on the labour market. It is still difficult for new entrants to find jobs, regardless of their training or willingness to work.

3.2 Employment and labour market policy

The **Republic Bureau for Employment (RBE)** is the only authorised legal entity for mediation in the field of employment. Persons looking for a job apply at the corresponding organisational branch (bureau of employment) – depending on the place of residence – in order to get employment mediation services (or in order to enjoy their rights during a period of unemployment, as shown in Chapter 2.3). The RBE keeps files on all unemployed persons as well as on the persons whose work is not demanded any more – technologically redundant labour – and other files as required by law. Apart from maintaining records and statistics, RBE is carrying out analytical research and planning of labour market developments.

In co-operation with organisations, employers and the government of the Republic, the RBE establishes and realises employment policy and programmes, publishes the collected data about labour demand, work conditions, the conditions that workers are supposed to meet, the profiles of persons looking for a job and provides other information on the labour market. In order to fill in vacancies more quickly and to employ more unemployed persons, the RBE organises a **modern information system** of employment. According to the present regulations, organisations and employers have to register their demand and their vacancies at the RBE.

In co-operation with the employers, the RBE has to find jobs for those workers whose labour is not necessary any longer – redundant labour – and to organise **active measures** such as special training, re-training and additional training of the unemployed and redundant labour. Furthermore, RBE offices implement measures in order to promote employment, e.g. stimulating self-employment by relevant financial support through smaller bank loans, etc. The RBE can invest funds in founding companies or pool resources with other companies in order to provide employment; it can also take other measures to realise economic policy in relation to human potential or to increase the occupational and territorial mobility of the unemployed.

As far as employment, procedure and rights are concerned, the Federal Regulations on Labour and the Republic Law on Labour from 1990 with amendments are still in force in Montenegro. But, it seems that legal regulations are not harmonised enough. Changes in property relations would impose a significantly different relationship between the community and the policies concerning employment. A new Republic Law on Labour is being announced now, and it is expected that it brings some changes to the present situation.

Labour relation is a contract relation between an employee and an employer. According to this contract, employees have the right to: salary, other rights from labour relations (vacation, paid and unpaid leave etc.), material compensation during the time of temporary unemployment, protection at work, health care and other rights in case of disease, reduction or loss of work ability, old age, and the rights to other forms of protection in accordance with the law and collective agreement; furthermore, the right to administration, negotiation, information and freedom of expression concerning important issues regarding the field of labour relations.

The **collective agreement** determines the rights, duties and responsibilities between employee and employer as well as the relationship between the subjects of collective agreement, in accordance with the law. The collective agreement is concluded as a general one or specific one for particular economic activities at the level of the FRY and Montenegro. It determines the cost of labour, the lowest and guaranteed salary. The employed have the right to strike, which is organised in order to protect their occupational and economic interests on the basis of their work. They are organised in a trade union organisation (company – town – Montenegro) in order to enjoy their rights of labour relations and other social influence usually achieved through **trade unions**. In this respect trade unions play an important role in the labour market.

An important feature of property transformation in Montenegro is the participation of the employed and formerly employed in the ownership of a company under favourable conditions (10,000 ECU to be paid off in a period of ten years) with a distribution of free shares (3,000 ECU). The law provides a maximum of 30 % of workers' participation in the ownership on the basis of buying favourable shares or 10 % on the basis of free shares allocation.

Still, the level of these rights, especially when we talk about bigger companies, is considerably lower because of individual limit (as stated in paragraph 1 of this subtitle) and the very high estimate of companies' property on the other hand. However, although workers only participate in the ownership structure as minority shareholders, the level of achieved ownership participation should not be underestimated, especially if we bear in mind the fact that protection of minority shareholders might occur in the future and if we find an adequate legal and economic solution to the problem of sufficient workers' influence on a companies' business. The workers must enjoy this right as shareholders with the right of administration.

It is becoming more and more obvious that development perspectives lie in private business which are to become the **main source of employment**. But, the law makes it compulsory for employers to employ workers on a permanent basis with temporary employment only being allowed in special cases. Employers are not satisfied with this provision so they find ways of not applying it. The point is that it is impossible to make them observe legal provisions if they have not been agreed with them. Furthermore, labour inspection itself does not fine those who have illegal employees and who are not paying insurance for them. That is why the RBE pro-

motes legalising the grey market and to introduce more flexible labour relationships. This could be a way to stop the manipulation of legal labour relations, and would also mean a protection of the rights of the employed in the field of social security. Wider possibilities of self-employment would also help in creating new jobs, and therefore, alleviate the tense labour market situation.

Another problem of the development of **private entrepreneurship** lies in the organisation of local administration, the complicated procedures and high taxes for registration of entrepreneurs. For the time being, some small changes have been made – for example, giving ill-way in paying taxes for registration – but the effects are still very limited and vary from municipality to municipality. Small businesses that have played important roles in reducing negative transition effects in other regions have never been developed in Montenegro. The attempts to develop them by quick privatisation of small and medium companies failed. **Semi-legal trade** has been the only business model in the private sector up to this time. In order to increase demand in the labour market, the government of Montenegro has organised a project to develop small and medium companies in Montenegro. The government is planning to establish a National Agency for the Development of Small and Medium Companies with the aim to implement this project. The partner for this project is Slovenia.

Beside of that, the **new draft Law on Employment** provides a series of stimulating measures (state subventions) for creating new jobs. There is also a possibility of opening private agencies that will, apart from the RBE and on the basis of given concessions, deal with employment mediation. Suggestions for solving the problems are given in the draft law and other mentioned initiatives from the RBE. But the outcome of these initiatives is mostly uncertain. For example, the suggestion for tax relief to entrepreneurs have to wait for the reform of the fiscal system, time limit which is set at four years.

According to the **Employment plan** for 2001, mediation and re-training for 35,000 unemployed persons is foreseen (i.e. for a proportion of registered unemployed persons who, according to the estimate of the RBE, really belong to the category of unemployed). For this purpose, it is necessary to provide DM 44 million. However, the purposed budget for active and passive labour market policy has only DM 20 million, which is obviously insufficient. If we compare this to the budget of the Republic of Slovenia that appropriated DM 600 million for this purpose, it is obvious that Montenegro does not pay enough attention to the problem of unemployment.

4 Conclusions

Ten years of deep economic crisis have led to **considerable changes in the social and economic positions** of the Montenegrin people:

- Decreases in standards of living as a result of drastic decreases in incomes;
- Increase in poverty, especially among workers in industry and families with children;
- Decrease in the number of employed in economic activities of about 50 %;
- Narrowing of material basis for funding of social security;

- Decrease in quality of services in health, education and social insurance as well as in utility services and public transport leading to additional decreases in the quality of life;
- Emphasised economic insecurity, uncertainty and lack of perspective.

The way of financing widely distributed rights, irrespective of the effect of the economic crisis, have resulted in a **continuous narrowing of the financial basis for social insurance** over the past ten years. Besides, the tendency to avoid paying taxes and the widespread grey economy additionally burden the efficiency of the system. The decrease in gross national product, and personal and public standards of living caused general poverty and focussed on the necessity for changing the system of social security. But Montenegro faces a difficult problem: how to (with little real financial power) provide social security for the growing number of those whose rights are defined by law.

Using the social system in order to create social peace had a disorientating effect on the promoters of social policy in Montenegro and discouraging effects on those who needed social security most. Although it is obvious that under these conditions it is difficult to design and carry out a radical and complete reform of the social security system, there is a danger that this problem will not be given enough attention due to other current political issues. We must bear in mind that the present social security system already has **retroactive limiting effects on the transition process** and the development of the economy.

In a normative sense, from the standpoint of social security, Montenegro has built a relatively **acceptable system of health insurance**. There is compulsory insurance, and there is also the possibility of voluntary health insurance for persons who do not have compulsory insurance as well as for those who wish to enjoy a higher standard of services. In accordance with international conventions, some rights in the field of health insurance for children, youth and women are guaranteed. However, the decrease in the level of economic activities has caused a situation in which **legal rights on health care are not implemented** consistently. The provision of funds for the functioning of the health care system is very uncertain. The insured are in a situation where they can not enjoy their legal rights, especially with respect to the services of diagnostic type that demand modern technology, hospital treatment and buying medicine. Recently, all rights has been reduced. Centralisation of health insurance system administration is another important reason why **a further reform** of the existing health care system **is necessary**. It is also necessary to take into account the criterion to higher efficiency of the whole system.

New constitutional solutions in relation to market economy demand that the existing Employment Law, based on the former self-managing system, is reconciled with the new demands of a market economy. The **concept of a new employment law** requires essential changes in relation to the present legal solutions, which would settle some of the issues in a completely different way. Such a policy of stimulating employers to create new jobs as well as the legal employment of unemployed persons would have a restrictive influence on the grey economy and would also give stimulus to the development of entrepreneurship, especially of medium and small companies. This goal could be achieved by giving credits for the creation of additional employment, by refunding social insurance taxes to those employers who employ certain categories of the unemployed, by different ways of subsidising education

and retraining of the unemployed in order to employ them in jobs which are in demand on the labour market.

In addition to that, **passive labour market policy** should be directed at providing social security during the time of waiting for a job. **Active policy** should contain various measures of employment promotion initiatives, advanced training and retraining. Finally, the law should be based on international standards of employment, which our country accepted by ratifying certain conventions and recommendations of the International Labour Organisation.

The draft Law on Pension and Disability Insurance in Montenegro is only an amendment to the Law on Pension and Disability Insurance and as such can not become a basis for **systemic pension reform**. We need to bring in a complete new law on pension and disability insurance in Montenegro, which would improve the pension insurance in accordance with international standards, and with respect to the general situation in the Republic. There is a particular need for more restrictive rights due to the weak economic base, as well as a need to define these rights more precisely because of misuses particularly widespread during the transformation and restructuring of the economy. The problems of the so-called technologically surplus labour and from bankrupt companies were solved, as in other transition economies, by encouraging premature retirement or granting the status of disabled worker.

Compared with the International Pact on economic social and cultural rights, the existing system of social security in Montenegro is rudimentary (with features of initial social security) and therefore it does not meet the requirements of modern social security systems. The funds for effectuating prescribed rights are insufficient. That's why, the Ministry of Labour and Social Care has started an initiative aimed at the **reduction of social security rights**, e.g. regarding to child care, and giving the support to those who need it most distributing the existing funds to fewer beneficiaries, which would increase their monthly subsidy.

However, we must bear in mind that in Montenegro, in such a period of mass poverty, the number of those who enjoy the right to public welfare is very small. The existing level of security does not secure satisfaction of basic needs, because payments are small, and also often delayed. The state has not decided for more radical reforms, fearing **social unrest**, in spite of the fact that it was unable to offer complete guarantees for effectuating the rights as prescribed by law. Therefore, **the reform of the system is necessary** if we want to make it more efficient and if we wish to enjoy social rights commensurate with international norms and standards.

Changes in Montenegrin society have affected the education system in many negative ways. It has resulted in a tragic economic situation of the system, an apathy and lack of motivation of staff, a lack of motivation and destructive behaviour of students, a lack of interest of parents and local communities, all conjoined with the problem of central state education administration. **Education in Montenegro requires total and radical changes** in all aspects: from education of adults to education of the talented; from changes of financing education to changes in education administration, from school level up to the university level; from connecting education with the demands of the labour market in the Republic.

There is also a lack of sufficient co-ordination and co-operation between education and labour market policies and, related to it, employment policy as well. It presupposes the creation of a **development coalition of relevant actors**, i.e. companies, labour market institutions (RBE, Training Agency, etc.), trade unions and education institutions, which should be supported and stimulated by the state. A possible direction in finding the solution to managing human resources could be described as follows: "we should shift from staff planning to strategic perspectives, from human relations to financial results and satisfaction of the employed, from labour relations to management and implicit work contracts, from training to trained manpower and permanent learning, from salaries and employment to total cost of labour and work performed, from individual workers to teams, from mechanical bureaucracy to networks and alliances and from integrated, uniform employment relations to strategic variety".

Romania

Dr. Irina Kausch
Consultant
Berlin

March 2001

1	The development of the social situation over the past decade.....	137
1.1	The development of income and poverty.....	139
1.2	Development in the labour market.....	142
1.3	Extent and structure of unemployment.....	144
2	The reform of the social security system.....	145
2.1	Healthcare system and health insurance.....	146
2.2	Pension insurance.....	148
2.3	Unemployment benefits.....	150
2.4	Social welfare and child allowance.....	152
3	Education and employment policy.....	154
3.1	Situation of reform of education.....	154
3.2	Labour market and employment policy.....	156
4	Conclusions and recommendations.....	158

1 The development of the social situation over the past decade

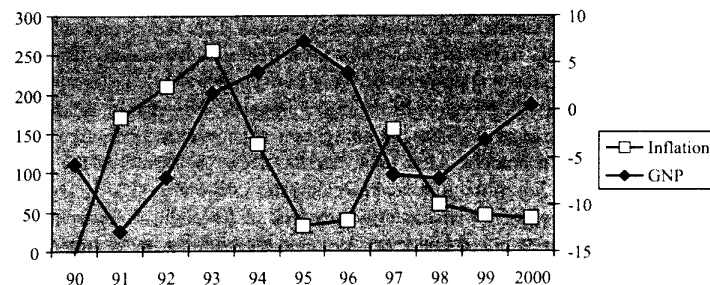
Even before 1989, Romania was one of the poorer countries of the Council for Mutual Economic Assistance (CMEA). Eleven years later, it is still one of the **lesser developed – or slow – transition economies** of Central and South Eastern Europe. This means that, whilst much of the legal and institutional framework necessary for a free market economy has been created, there are still deficiencies in application deriving from comparatively unfavourable starting conditions¹ and a persistent blockade of the reform process. The **change of the leading political forces** in the autumn of 1996 has not brought the expected acceleration of the political and economic transition process. After four years in office, the results of the governing coalition, under the leadership of the Romanian Democratic Convention (CDR), were clearly poor. The governmental policy was characterised by lack of foresight on the one hand and constant struggles of power and divergent interests within the coalition on the other. This had another significant effect on slowing the pace of reform, leading to a greater delay of much needed economic restructuring and a growth in corruption.

At the latest in 1999 these developments had caused an increased loss of faith in the conservative administration, leading to gains not only for the former **governing party**, the **Party of the Social Democracy in Romania** (PDSR), but also for the right extremist and nationalist party Great Romania (PRM). This was mainly reflected in the presidential elections of November 2000, when former president and PDSR candidate Ion Iliescu won the second ballot against Vadim Tudor (PRM) with 67 % of the vote. PDSR had also won the local elections in June and the parliamentary elections in November. As soon as by the end of 2000, the party formed a minority cabinet with Prime Minister Adrian Năstase, the first vice-president of PDSR. The minority cabinet is supported by the National Liberal Party (PNL), the Democratic Party (PD), and the Democratic Union of Hungarians in Romania (UDMR), the major opposition force is the radical nationalist PRM. The new cabinet has immediately produced a programme promising political stability and continuity as well as an acceleration of economic reform. Much emphasis is put on **active social policy**. This is clearly reflected in the first measures taken by the Năstase Cabinet, e.g. a significant growth of the minimum wage and of pensions. In addition, a new system of social benefits and a guaranteed minimum income are to be implemented. In mid-February 2001, a standstill agreement for one year with the trade unions was signed, limited to one year. New active wage policies should tie economy and social components closer together.

Repeated ups and downs of the main economic indicators are characteristic of Romania's **economic development** after 1989 (see Chart 1). This is due to the effects of two adjustment shocks (1990 and 1996/97) and the inconsistent economic policies of rapidly changing cabinets. For the first time, after three years of recession the gross domestic product (GDP) showed a slight growth of 1.5 % by the end of 2000. Inflation, though, is still high with an

¹ We refer especially to the overexploitation of resources in the 1980's combined with a radical import stop and a very tough austerity policy that largely destroyed the economic and social structures of the country.

Chart 1: Development of macroeconomic core indicators, 1990 - 2000



Source: UNDP, 1997: 124; EIU, 1999: 40; F.A.Z-Institute, 2000:3

annual average of 44 % (at the end of 2000: 42 %), and real wages keep falling (F. A. Z. Institute, Jahreswechsel 2000/2001: 3, 9, 11).²

The negative results of Romania's transition process have weakened the economic performance of the country and increased the already **high social costs of transition**. These include above all the impoverishment of large population groups due to the drastic drop in real income, combined with a partial failure of social services such as healthcare and education. The sharp decline in production has also led to a strong decrease in employment, which due to falling demand has resulted in even higher unemployment.

The **share of social expenditure in GDP** was at its lowest in 1989 and, at 14.4 %, below the average of the transition countries. Although there was a moderate increase to 17 % until the end of 1991, this was in real terms below the level of social expenditure of 1989 – due to the rapid decline of GDP. In the following years, the share of social expenditure decreased further and, in 1995-97, was around 16 %. This could still not, however, match the 1989 level, in spite of remarkable growth rates. This effects especially the income situation of the weakest social groups (retired, people on social welfare) as well as healthcare and education (see Chapters 1.1., 2.1. and 3.1.). For example, the real expenses for healthcare in 1998 were in fact 10 % below those of 1990 (UNDP, 1998: 51f; UNDP, 1999: 49).

Although Romania, over the past years, has initiated reforms in the socio-political field, they are not sufficiently geared to the existing problems and, because of insufficient resources, are only implemented or effective in part. Thus there is danger of increasing social polarization

2 According to recent prognoses the increase in GDP can be as high as 2.7 % in 2001 and 3.2 % in 2002. The new cabinet is counting in its programme on an average annual increase of 4.5 % for the years 2001 to 2004. The inflation rate for 2001 is expected drop to 30 % (34 % annual average) and in 2002 even to 20 % (25 % annual average). Private consumption is presumed to grow considerably (in 2001 by 2 % and in 2002 by 2.5 %). Investment is also supposed to increase by 8 respectively 9 % (EIU, February 2001: 7-8).

and building up of social tensions as well as of medium and long-term losses in the field of human development.

1.1 The development of income and poverty

Since 1989 Romanian households have suffered from **constant loss of income** to varying extents. The value of social transfers, for instance, was lower than that of wages, i.e. those at the lowest social level have to bear the heaviest social burden. Rural-urban income disparities existed well before 1989, but that gap has widened recently. In addition, there are strong regional differences.

Gender specific differences have become more and more evident over the past few years. Women are at a disadvantage in the labour market and less represented at local and national political levels. Ethnic origin has not served as a criterion of social inequity, except for the Roma. This group has been exposed to increasing economic and social discrimination.

Transition has had a considerable impact on the **evolution of income levels** of Romania's population. Yet the present income structure differs considerably from that of modern market economies. It is a clear result of the economic crises since 1989 and has the following characteristics (see Table 1):

- Incomes from dependent employment have fallen drastically due to decreasing employment rates and restrictive salary policies. Consequently, wages and salaries in all household categories have dropped in relation to total income. In September 2000 the average salary was about 12.1 % lower than in December 1999 and almost half (43,7 %) of that in October 1990 (Source: Institute of Statistics).
- Social transfers, such as pensions and unemployment benefits, which were already very low have fallen steeply since 1989. In a pensioner household, transfers accounted for less than 40 %, in that of unemployed persons for 23 % of the total income.
- The structure of total income is characterised by increased consumption of agricultural products from subsistence economy, thus compensating in part the income losses over the last years.
- Income from the agricultural sector is generally very low because most households produce mainly for themselves and are highly inefficient. The division of the farmland into small lots, poor equipment and difficult access to credit markets are behind this problem.
- Income from (non-agricultural) individual activities and from capital investment has gained in importance.
- Although not shown by the statistics, incomes from the informal sector must be taken into account. They are very important for a section of the population, but differ depending on source and level. The same is true for another sort of income – income from corruption, which has increased in Romania after 1990.
- Also statistically not illustrated, nevertheless very important for part of the Romanian population, are the income transfers from legal and illegal employees abroad.

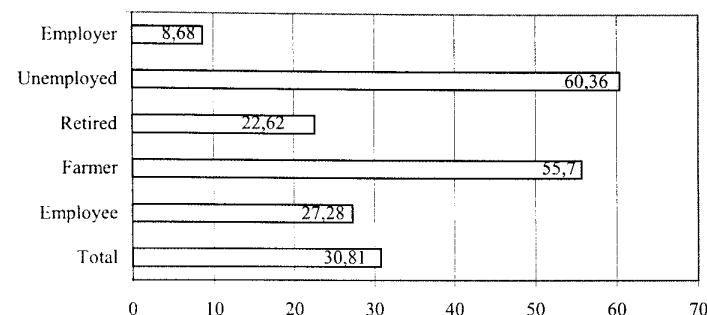
Table 1: Structure of household incomes (%) 1995 and 1998						
	Total	Household type				
	Households	Employees	Farmers	Pensioners	Unemployed	Employers
Average monthly income	100 100	100 100	100 100	100 100	100 100	100 100
Gross wage	43.8 39.6	70.4 71.1	8.8 6.0	15.4 13.5	20.7 21.6	24.7 24.5
Equivalent of consumption of home-grown agricultural products	27.6 29.1	18.6 17.7	52.3 55.1	36.5 37.5	37.3 33.1	9.5 12.1
Income from self-employment	4.4 3.7	1.9 1.1	7.5 6.3	2.4 1.3	8.5 5.2	40.0 53.6
Income from social transfers	15.9 18.7	4.3 5.6	7.7 8.1	32.2 38.3	19.8 22.6	1.6 3.3
Others	8.3 8.9	4.8 4.5	23.7 24.5	8.3 9.4	13.7 17.5	24.2 6.5

Source UNDP, 1999: 96

The documented income differentials point towards a new problem, which affects Romania to a large extent: **the increase of poverty**. There was some initial effort from the CDR administration, in close cooperation with UNPD, to establish a strategy to tackle this issue. This included the formation of a National Commission for Poverty Alleviation. This strategy, however, is still in its beginning. It is based on an integrated approach which provides for a concept to record and evaluate poverty and for measures; at present pilot programmes are introduced to contain poverty (UNPD, 1999:45f). It is characteristic of the current approach to poverty alleviation that existing instruments, e.g. minimum wage, social welfare or child allowance, have little effect on poverty in their current form (compare 1.2. and 2.4.).

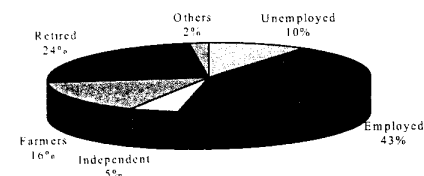
According to data from sample surveys of households, nearly 7 million Romanians lived below the poverty line in 1997³. This is an increase of about 1.2 million poor compared to 1995. However, considering the fact that 1996 saw a temporary decrease in the absolute number of poor people, the actual increase amounts to 2.5 million. The regional distribution of poverty is directly connected to the structure of income and the population groups most affected by poverty: 55 % of households below the poverty line lived in rural areas in 1997. Most affected are the North Eastern regions of the country; Bucharest in contrast has the lowest poverty rate. The highest poverty rate is found in unemployed and agricultural households: in 1997 60 % respectively 55 % of people in these households lived below the poverty line (see Chart 2).

Chart 2: Share of poor within the respective household categories (1997) (%)



The situation looks different again when the number of households are compared to the total number of poor. In this case households of pensioners and unemployed are most affected, with nearly 70 % living below the poverty line (see Chart 3). These are, in absolute figures, the major population groups of Romania. The low income is again the reason for poverty. It is also of importance how many members the household comprises and how many of them earn money. Most of the poor pensioner households are to be found among the people living in rural areas and among those depending on a state pension.

Chart 3: Share of poor population by household category (1997)



Source: UNDP, 1999: 43

3 The National Human Development Report of UNPD defines the poverty line as 60 % of the consumption expenditure spent by an adult person (UNPD, 1999:42).

The fact whether the head of a household is a man or a woman also makes a difference, there is a tendency for higher poverty rates in families where a woman is the head. The risk of falling below the poverty line increases with the number of children living in the family.

1.2 Development in the labour market

Amongst the Central and Eastern European countries, Romania has the second largest labour potential after Poland: more than 13.3 million people. 9.84 million (1999) of the working population are reckoned economically active, which accounts for an **activity rate** of 74 %⁴. This is, as in other transition economies, clearly above the average of the OECD countries, although there has been a decrease in the activity rate by approximately 8 %. The female activity rate was also above the average of OECD countries, about 73 % in 1998 (MLSP, 1998-00).

	1/1/1998	1/1/1999
Total population	22.53 million	22.49 million
Male	11.03 million	11.00 million
Female	11.50 million	11.49 million
Economically active population, total	13.33 million	13.36 million
Labour force total	10.04 million	9.84 million
Male	5.32 million	5.19 million
Female	4.71 million	4.65 million
Employed total	9.02 million	8.81 million
Gross activity rate	46 %	44 %
(labour force to total population)	75 %	74 %
Net activity rate		
(labour force to economically active)		
Source: MLSO (1998-00)		

A look at the employment situation in the various sectors reveals three important tendencies:

- An increase in agricultural employment. This is a direct result of the economic crisis, but also of the agricultural tradition of Romania. Agriculture plays the role of a social buffer, since it provides at least a minimum level of income, in most cases at subsistence level. A specific problem is the ageing of the agricultural labour force⁵.
- The manufacturing industry and in part the construction industry experienced an important reduction in employment, which has not yet reached its lowest level. The demand for labour in recently established enterprises can not sufficiently compensate for this. There

4 Calculated for an economically active population; for women from 15 to 54 years of age, and for men from 15 to 59.

5 More than 41 % of the active labour force in the rural areas is older than 50, compared to only 13.7 % in the urban areas.

are some branches in the manufacturing industry, especially light industry, which are largely dominated by intermediate production for foreign corporations, that could preserve the level of employment and even increase it to some extent.

- The only branch that has expanded is the service sector, although it shows, compared to its share in GDP, only a relatively slight increase in employment and does not provide a significant stabiliser for the labour market.

The structure of employment is characterised by the steady decrease of employees, accompanied by an increase of self-employed and unpaid family members. In the latter group, women are predominating.

The **development of wages and salaries** shows a growing differentiation since 1990, (1) with a great imbalance between sectors, (2) between men and women, and (3) between public and private enterprises. (1) The largest increase in income is witnessed in the financial sector, which records an increasing demand for a specialised labour force and, at the same time, offers attractive wages and bonuses. (2) The average wage of men is 25-32 % higher than that of women. Although factors such as part-time jobs and gender specific patterns (e.g. men dominate leading positions) play a certain role, this is another indication of the worsened conditions for women in the labour market. (3) Although restructuring has already started in some state owned enterprises, salaries tend to be still higher than in private enterprises. This is mainly due to their still existing monopolies. Income in the public service sector (above all administration and social services, see 2.1. and 3.1.) is comparatively lower, although a high degree of highly trained workers are employed in this sector.

It is generally clear that the remuneration system in Romania is in urgent need of reform, considering the unbalanced salaries and out-dated structures. Progress in economic restructuring, breaking down monopolies and strengthening the position of social partners in the bargaining process, their involvement is actually provided for by law, can, in the medium and long term, bring about a wage system that is more performance and education oriented and thus can at least partially relieve social inequalities.

The Romanian Cabinet has already introduced a basic **minimum wage** in order to create social security for low wage labour. The minimum wage was deliberately kept low in order to create an employment effect especially in structurally weak areas and to make employment in the informal sector unattractive. Even though the minimum wage has been repeatedly increased over the past few years, it has always lagged behind the average wage increase. For a while it was even lower than the average unemployment benefit⁶. The effect of this low level was that it did neither serve to limit illicit work nor guaranteed social security. The new government has visibly increased the minimum wage and made clear that it should always be higher than the level of unemployment benefits. Currently, the minimum wage is above the subsistence level. It should thus assume again a steering function in national economy, i.e. by increasing the consumption potential on the one hand and by being more attractive than un-

6 In 1998 and 1999 the minimum wage was only about 20 % of the gross income and around 80 % of the average unemployment benefit.

employment benefits on the other. After the tax reform in 2000 the minimum wage has been exempt from income tax, provided it is the only source of income, but not from social insurance contributions. Only time will tell how far this measure will go in limiting the extent of employment in the informal sector.

The increasing importance of the **informal sector** in the national economy has direct effects on the development of employment for two reasons: (1) due to high unemployment and low demand in the formal sector, a large number of individuals are forced to secure their existence in the informal sector. (2) Due to the fall in real income a number of active people may seek additional employment, in part in the informal sector, as the formal sector wage is not sufficient to cover necessary expenses. In the short run, the informal sector can relieve the pressure on the labour market. However, it provokes tax evasion and information deficits (e.g. the distortions in unemployment statistics, which, in turn, have repercussions on labour market and employment policies). In the long run, the informal sector indirectly contributes to a high level of unemployment.

In addition, there is a peculiarity of Romanian labour law, between the bounds the formal and informal economic activity: mostly short time so-called "civil labour contracts". In these cases, the employer has to pay income tax but not social insurance. These contracts and employment conditions mentioned above are responsible for the erosion of the social insurance system and have cut an ever-growing number of employed people from social services. In the end, both have led to higher costs for the society as a whole. The new cabinet has abrogated this form of labour contract and replaced them with so-called "free service contracts" (*convenție civilă*). Under the recent tax reform, each kind of income will have to be declared, including the *convenție civilă*. In addition, social insurance contributions must be paid (by both the employer and the employee).

1.3 Extent and structure of unemployment

Romania has a level of unemployment comparable to the other transition countries. While in more developed countries, with still a high level of structural and long-term unemployment, overall levels of unemployment are falling due to greater demand in the labour market, Romania is facing a new wave of unemployment caused by the economic restructuring process. In addition, there is a growing group of people, especially youth and women, who no longer look for employment since there is no prospect for success.

	1/1/1998	1/1/1999	1/1/2000	1/1/2001
Unemployed (officially registered)	0.881 million	1.025 million	1.130 million	1.007 million
receiving benefits	0.656 million	0.793 million	0.872 million	0.699 million
Unemployment rate	8.8 %	10.3 %	11.51 %	10.5 %
Source: MLSP 1998-2000				

Officially registered unemployment amounted to 10.5 % at the end of 2000, which is around 1 million unemployed (MLSP 1998-2000). More and more long-term unemployed do not receive benefits any longer. The female unemployment rate exceeded the male rate in the

early 90's. This trend has somewhat changed, because women are increasingly employed in light industry while dismissals in mines and heavy industry concerned mainly men. The lower unemployment rate at the end of 2000, compared to the year before, indicates a slight increase in economic growth, having a positive effect on the labour market. But it also indicates that a comprehensive restructuring of state owned enterprises has not yet taken place, because that would lead to massive redundancies. The new cabinet, too, will seek to avoid a drastic increase in unemployment. As a result, **hidden unemployment** will remain high in Romania.

Youth unemployment is alarmingly high: at the end of 2000, 40.3 % of persons under 29 were officially registered as unemployed, i.e. they received some form of benefit or participated in an labour market policy programme (MLSP, 1998-2000). Actually, youth unemployment may be even higher. Estimations range from 45 to 50 %. It is evident that new entrants to a tight labour market are at a disadvantage.

The youth are one of the **main problem groups** in the labour market, additionally, employees over 50 and persons with low levels of qualification. They are often inflexible and cannot cope with increasing requirements in labour market. There is also a high level of long-term unemployed, with little potential of re-entering employment. The group of long-term unemployed persons (more than 12 months) has gradually increased and represents 50 % of all unemployed over the last two years. Another problem group is that of people from regions with weak structural development or regions with undiversified economies, which also display a high concentration of unemployment. This is the case of the eastern and north-eastern parts of the country and some districts (*județe*) in the south-east: The level of unemployment here is between 12 % and 17 %. The regions with the lowest unemployment are the Bihor and Satu Mare districts in the north-west, the capital, Bucharest, and the surrounding district, Ilfov (MLSP, 1998-2000).

As with most of the other transition countries, there is a high level of **underemployment and unregistered unemployment**. In 1998 the underemployment level was 2.8 %. A similarly high number of the economically active population have withdrawn from the labour market against their wishes, and are no longer part of the labour force. Involuntary part-time work is widespread in rural regions and women are more affected than men. The so-called 'discouraged persons' are mainly to be found in the cities, among them obviously more women than men (UNDP, 1999: 20f.).

2 The reform of the social security system

The reconstruction and restructuring of a social security system adjusted to the new conditions confronts the Romanian state with a number of complex legal and institutional challenges. With economic transition boosting social costs, which setbacks and delays in the reform process add up to, the question of how to finance the social security network comes to the fore.

The starting point for a new phase in the **reform of the social security system** began with the establishment of the Economic and Social Council in March 1998, which is the first tripartite institution in Romania. The reform comprises three steps, with both economic and institutional aspects: (1) the introduction of bodies under public law with a tripartite board, the pur-

pose is to achieve a clear separation between the state as a political body and the executive bodies, (2) the reform of contribution collection, (3) the reform of the benefit entitlement rules. The latter touches most upon the content of the reforms and thus requires more time and more intense decision making processes. So far the following progress has been made: In 1998 laws on the National Agency for Employment and Vocational Training and the National Healthcare Insurance were enacted. In 1999 bills for Pension Insurance and Employment of the Population were passed. Both institutions mentioned above were set up in 1999.

2.1 Healthcare system and health insurance

The **state of Romanian healthcare** shows two negative tendencies; firstly, the overall health condition of the population in the last years of the Ceauşescu regime was already precarious and continued to deteriorate due to economic and social decline, environmental pollution and the difficulties to adapt to new demands. Secondly, the healthcare system itself is heavily affected by a shortage of funds and all the economic and social consequences of transition. The alarming state of the population's health and its deterioration with its consequences for general human development is reflected by a high rate of mortality, a fall in life expectancy and an increase in fatal diseases, such as diseases of the circulatory system, malign tumours, diseases of the stomach and infectious diseases, especially tuberculosis.

The Romanian healthcare system was in principle free of charge until 1989 (i.e. until the introduction of health insurance based on contribution, see below).⁷ Up to this point the state had been the main provider of healthcare in terms of (1) investment in buildings and equipment, (2) salaries and wages⁸, (3) general health programmes and (4) health insurance contributions for needy people. In addition, health insurance payments, which are now funded from individual income, were often not made and below the expected level. This shortage in funds led to a decreasing number of hospital beds, closures of smaller clinics and the migration of doctors and medical personnel, which increased the number of patients per doctor. This is especially serious in rural areas, where there are 1475 inhabitants per doctor compared to a ratio of 1:360 in urban areas. Generally speaking, healthcare cannot cope with demand, which is reflected in the decreasing numbers of medical consultation and treatment as well as in hospitalisation figures (UNPD, 1999:49f).

In the framework of the urgently needed **reform of the healthcare system**⁹ the centralised financing system was replaced in 1999 by a mandatory healthcare system based on current-income financing; funds are managed by the National Health Insurance. This new system is to ensure basic levels of healthcare for the population in accordance to the principles of univer-

7 Yet people had to pay extras for hospital treatment, medicine and even doctor calls in order to receive decent treatment.

8 Although salaries and wages in this sector are among the lowest in Romania, their share in the total cost for healthcare was 75 % in the mid-90s. UNPD, 1997:63.

9 In the years 1994 to 1996, by reason of the very poor state of the healthcare system in 8 districts, measures were taken to restructure the system and a modified financing system was tested (UNPD, 1997:64). What experience has been gathered and to what extent it has helped the elaboration of the healthcare reform is not known.

sal healthcare. Contributions are made in equal shares by employees and employers and stand at 7 % for each party. The financial resources of the new health insurance funds are topped up from the state budget. At the same time, the fund shall be relieved by proportionate payments for medical services and medication by patients. Additionally, there are funds managed separately for those employed in transport, military, police, and internal services. A small private healthcare sector has also emerged (EJU, 2000:16).

In addition to the realisation of a new finance model, the reform of the healthcare sector has the goal of improving the general health condition of the population, the efficacy of resource use and the quality of medical care and health services. To this end the healthcare system will have to be restructured.

The weight and direction of the reform lie in:

- improvement of the structure and the institutional framework of the system through decentralisation of functions and responsibilities of the institutions involved (Ministry of Health, Health Directions and subordinate units);
- re-evaluation of salary grades for doctors and medical personnel according to competence and experience;
- more emphasis on the role of general practitioners as family doctors;
- structural changes in the ranking of medical services, i.e. a shift of weight from specialised hospital care to out-patient treatment;
- expansion of the private sector;
- development of a mixed offer of services and definition of service packages;
- free choice of doctor and healthcare facilities.

The majority of the changes striven for have not been yet achieved. High and still growing costs and limited funds have led to a significant **delay in the healthcare reform process**. The economic recession of the past years has diminished the possibilities of raising the necessary funds in order to achieve the targeted level of healthcare. Services and the list of medicine that will be paid by health insurance follow more financial criteria than the needs of the recipients. Privatisation of medical services has started rather late and has been implemented under difficult conditions. It is hampered by the lack of legally guaranteed incentives (credits, tax relief, offer of suitable premises) and the precarious financial situation of most patients. The expected decentralisation of services is hindered by unclear responsibilities for and insufficient funds of local governments.

In conclusion, the implementation of the health reform will decide on who receives medical services and who is excluded. This must be seen within the context that a considerable part of the population, employed in the informal sector, does not receive medical services anyway, and that limited funds seriously restrict the range of services and reimbursement of medicine. Moreover, it is still unclear how patients can cope with the necessary extra payments, for even in the past households were hardly able to meet expenses for healthcare. The new cabinet wants to push the healthcare reform steadily ahead. It wants, among other things, to bring forward programmes that will lower the high rate of mortality and improve life expectancy.

Also, by mid-May 2001 strategy plans will be set up for privatisation in the health system and the production of pharmaceutical and medical equipment.

2.2 Pension insurance

The **pension system** at the beginning of the transition period was relatively well structured and covered most of the population. It was separated in (1) a contributory old-age and disability pension; (2) an non-contributory pension for orphans, war veterans and widows; (3) a co-financed social insurance pension for persons with short working periods. The regular retirement age was 57 for females and 62 for males. Qualifying conditions for receiving a pension were 30 years of work for men and 25 for women. Some occupational groups could retire a few years earlier than the legally fixed limit. The entitlement to disability pensions and pensions due to inability to work was generously handled, especially for those being victim to accidents at work. The level of pension depended on the average income for the best consecutive five years within the last ten years of work, the number of working years and the occupational group. This basic pension was supplemented by a certain amount according to the number of contributory years. Farmers¹⁰ were among those whose pension was contributory, yet received a far lower retirement pay than other old-age pensioners. People at retirement age but with less than ten working years but a total of more than five had the right to claim social insurance pension (Racoceanu, 1998:64; UNPD, 1998:43).

All these regulations kept functioning at the start of the transition process. However, pensions, like all other incomes, lost purchasing power. With the intention of keeping above all small pensions from falling too far, they were partially adjusted in line with inflation, while average sized or larger pensions were not. Following the old system, higher income levels were reflected to a lesser degree in pension levels¹¹, and, over the years, this has led to a number of inequalities in the pension system that could not be maintained.

Facing the fact that, on average, pensions are no longer enough to ensure a decent standard of living and that many retired people are living on, or even below, the poverty line¹², an increasing number of pensioners are forced to improve their income by seeking gainful employment. The majority does this in the informal sector. It is also possible to receive income from the formal sector and a pension at the same time.

At the beginning of the 1990's Romania, as the other transition countries, created the possibility of **early retirement** in order to protect older employees from long-term unemployment and, at the same time, to avoid overloading the newly established unemployment insurance

system. Persons that had five or less years until the regular retirement age¹³ were now entitled to pensions in case of long-term unemployment. As was evident later, the burden upon one system was just shifted onto another. Within a few years, the number of pensioners rose from 3.6 million (1990) to 5.5 million in 1997. This was more than half of the active working people at that time and 25 % of the entire population. At the same time, due to the possibility to receive pension and hold a job, there was no significant release of labour market pressure.

The **ability to finance the pension system** was increasingly put under question. On the one hand, this was due to the large number of pensioners, on the other, the lack of resources due to the non-payment of contributions to retirement funds by enterprises. The degradation of the system has shown the necessity to transform the state financed and managed social security system into one that is publicly managed, as well as to reform the financing scheme of pension insurance. First efforts were made in 1991, but the bill for the new retirement law was debated in Parliament not until 1996. The final draft was ready to pass through Parliament three years later.

The **draft of the pension reform** detailed a pension system with three elements. (1) a legal pension insurance – based on the solidarity principle; (2) a private legal pension, based on capital accumulation and managed by different private funds and (3) an individual private pension from freely chosen private funds. On this basis, the “Law concerning the public pension system and other entitlements from social security” was passed in March 2000 and will be enforced by April 1st, 2001. It embodies the reform of the legal pension insurance system. In addition, the forms of pension insurance mentioned in (2) and (3) were regulated through separate provisions that were annulled by the new cabinet immediately after it had taken office.

The law on the public pensions will make the following changes in the provisions valid so far:

- the retirement age will increase (over 13 years) to 65 years for men and 62 for women in order to gradually lighten the overload through early retirement and to take the development on the labour market into account. In addition to that, the minimum contribution period for men and women will increase from 10 to 15 years and the full contribution period from 30 to 35 years for men and from 25 to 30 years for women.
- early retirement will be more flexible. It can be claimed only five years before reaching the retirement age if the contribution period is longer than 10 years. At the same time, employees can claim a partial early retirement five years before reaching retirement age, if they have fulfilled or passed the full contribution period. Early retirement or partial retirement implies a gradual reduction of payments until the retirement age has been reached.
- the number of people covered by the retirement system has increased; they are classified in five categories. In addition, persons not belonging to those five categories can sign an insurance contract in order to become part of the system. Contributions differ according

10 Until 1992 the retirement age for farmers was 65 years for men and 60 for women.

11 Given an income of 1300 lei, for example, 80 % of the previous average income formed the basis for the pension. Given an income of 4000 lei and more, only 58 % were calculated as the basis (1993) (Hartwig, 1996:56).

12 In 1997 1.7 million pensioner households, which makes 24 % of all poor, were below the poverty line. See Chart 3 (UNDP, 1999:43). As mentioned above the new cabinet intends to raise pensions and to adjust them to inflation quarterly.

13 The criteria for retirement in case of disability were handled rather generously, probably to make early retirement possible.

to category. For instance, people with an individual labour contract, office workers, deputies, and members of cooperatives (category 1 and 2) pay as "employees" $\frac{1}{3}$ of the contribution and $\frac{2}{3}$ are paid by the employer. For the unemployed (category 3), as long as they are on unemployment benefit, the whole contribution is paid by the unemployment fund. All categories of self-employed worker (category 4 and 5), including farmers and people with individual insurance contracts, pay the full contribution.

- the calculation of pensions is done for the entire period in which the contributions were paid, based on a points system. It is aimed to create the missing connection between the working period and earnings over this time.
- the system of indexing, as it was until now, will be replaced by a system that is more flexible, therefore the loss of purchasing power of pensions will be kept under control.

The retirement funds will be managed by the National Agency for Social Insurance at the local and regional level with the participation of trade union representatives, government and the National Association of Pensioners.

Basically, it is a correct political decision to increase, in the medium term, the retirement age in order to lighten the load on the pension system by early retirement of those that can and want to work. Unless this is accompanied by improvements in the employment situation in the foreseeable future there will be just another redistribution between the insurance systems – to the burden of the unemployment insurance and the social security system respectively.

The programme of the new cabinet has included the continuation of the pension system reform in order to establish a multilevel pension system that should hold, in the future, private financed retirement insurance (enterprise pensions and individual private provisions), based on capital funding, as well as the public legal pension system. Criticisms of the public pension system have been made because the legally required connection between the working period and the level of pension will not eliminate the inequalities between the different generations of pensioners. The new cabinet intends to solve this problem through a three-year programme beginning in the 4th quarter of 2001. The upper pension limit that is set by law will be removed, a minimum pension will be guaranteed by the state and the pensions of farmers are going to grow gradually by 100 % by 2004.

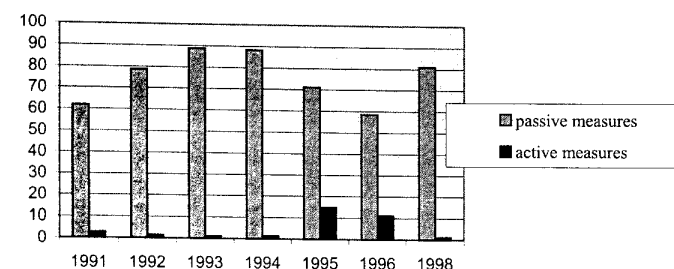
2.3 Unemployment benefits

The 1991 employment law (officially: The Law for the Promotion of Labour Force) lays down the current **benefit entitlement rules in case of unemployment** and defines the persons entitled to receive benefits. Active and passive measures are provided for.¹⁴ Since there are problems, faced not only by the transition countries, in conceiving and implementing an efficient set of active instruments, passive measures prevail over active ones (see Chart 4)¹⁵.

¹⁴ Institutions and instruments of labour market policy, including active measures, are presented in 3.2.

¹⁵ Data for 1997 are not available. The costs of active measures in the years 1995 and 1996 are significantly lower than those in the years before, because the latter also contain expenses from an EU financed labor market programme.

Chart 4: Comparison of costs between active and passive measures (%)



Source: UNDP, 1998: 46

These measures are **financed** through unemployment funds, which are fed with contributions from employers (5 % of the total wage), and from employees (1 % of the gross wage). Due to the only gradually growing (registered) unemployment and the relatively high contributions, a considerable nominal excess was gathered in the first years. This has meanwhile changed on account of a variety of factors: firstly, the number of unemployed and consequently the number of those entitled to receive benefits have increased; secondly, severance payments as a result of mass dismissals, continuing short-time working allowances as well as arrears payments for social contributions of enterprises. This has led to greater pressure on the unemployment fund, which recorded a deficit for the first time in 1999. The deficit is financed, according to law, from the national budget. The procedure of collecting contributions is performed separately for each form of insurance (unemployment insurance, pension insurance and health insurance). This produces considerable bureaucracy,¹⁶ especially for small and medium-sized companies.

The **passive measures** comprise the payment of unemployment benefits for a period of up to 9 months and, at the end of this period, unemployment relief for no longer than 18 months. After this, one is entitled to social welfare (see 2.4). Compared to other countries, the period is relatively generous. Entitlement to benefits presupposes that the person involved is willing to work, does not have any other income (more than $\frac{1}{2}$ of the minimum wage) or does not own land (more than 2000 square meters) (Hartwig, 1996: 54). With the rapid increase of unemployment and the ensuing additional load on unemployment funds, unemployment benefits and unemployment relief were partially indexed to the minimum wage. The low level of the minimum wage (until the beginning of 2001) and the dramatic loss of income since 1990 make it obvious that both forms of transfer payment are unable to provide a minimum safety net.

¹⁶ Initially, a simpler procedure was planned, i.e. a joint social insurance fund. Why it has not been put into practice, could not be found out.

Against this background, the unconditional payment of passive measures, which is quite generous into the bargain, is hard to understand. This applies to continued **short-time working allowance** in companies that the government considers to be strategic (esp. in the arms industry), and to severance payment in case of mass dismissals. Even if production has come to a full stop the short-time working allowance sometimes is as high as the full wage. For the regions concerned, this represents a serious load on unemployment funds. Moreover, many employees hold a second job in the informal sector.

The granting of **severance payments** can ease the social and political costs of liquidating enterprises, especially in times of economical restructuring. This was the main reason why the government agreed to pay compensation in the case of mass dismissals. The way how severance payments were handled, i.e. no provisions to prevent misuse and the differing treatment of some branches, has sharpened the existing imbalance in the distribution of social costs of transition (this refers also to the payment of short-time working allowance mentioned above). A particular contradiction was the fact that it was possible to receive both unemployment benefit and severance payment, although both payments come from the same unemployment fund.¹⁷ 43.5 % of the NAE budget (National Agency for Employment) was spent on severance payments in 1998 alone and again 40 % in 1999.

The issue of the efficient intervention of passive labour market instruments or earnings-replacement benefits is crucial. The focus is on the necessity of social buffering of unintentional and unprovoked unemployment. Efficient usage of such instruments can be achieved, with the effect of a quick return to work of those affected, if replacement benefits and other political instruments of the labour market are combined, e.g. making employment or participating in active measures attractive. What is missing at present is the legal groundwork. The new government programme also allows for reforms of the unemployment insurance system. Priority for passive measures, including severance payments, should gradually be overcome and give way to active measures. In addition, contributory unemployment insurance and flat-rate benefit are to be introduced. Another point is to shorten the period during which unemployment benefit is paid (see also 3.2).

2.4 Social welfare and child allowance

With social problems becoming more acute it has become evident that there was no social security for certain problem groups. Because of that, in 1995 – quite late considering the problems faced – **social welfare** was introduced. It is not limited to a definite period of time, but depends on income and thus is meant for groups whose income from other sources is below a given minimum. Besides these direct transfer payments, there are a series of welfare benefits, such as free or reduced services (transportation), food (the soup kitchen) and care for the elderly, people with disabilities, and children (see Table 2).

17 The first change has already been made: unemployment benefit and severance payment can not be received anymore at the same time, first the severance payment, then the unemployment benefit.

Table 2: The social security system in Romania (selection)

A: Social insurance systems managed by the State	Services	Financing
1. Pension insurance	<ul style="list-style-type: none"> pensions (old-age pension, disability pension, widow- and orphan pension) 	contributory
2. Health insurance	<ul style="list-style-type: none"> sickness benefit maternity pay Spa treatment 	contributory
3. Unemployment insurance	<ul style="list-style-type: none"> unemployment benefit 	contributory
passive	<ul style="list-style-type: none"> unemployment relief short-time working allowance severance payment 	co-financed within an EU-programme
active	<ul style="list-style-type: none"> training/retraining wage subsidies for school leavers creation of jobs through subsidised credits 	financed through contributions and taxes
	<ul style="list-style-type: none"> pilot programme "Labour Redeployment Programme" 	financed through a World Bank programme
B: State Transfers		
1. Family allowances	<ul style="list-style-type: none"> child allowances birth allowances assistance for wives of conscripts 	financed through taxes
2. Social welfare	<ul style="list-style-type: none"> social welfare 	financed through taxes
3. Social assistance services	<ul style="list-style-type: none"> Maintenance, care and medical assistance in homes for children and old people soup kitchen and other social welfare measures 	financed through taxes, partially co-financed through an EU project

Source: UNDP, 1997: 41, and author's research

First, social welfare in Romania was directly financed by the national budget, then managed by local governments and financed from their budgets¹⁸. Within a short period of time weaknesses became evident, both financially and institutionally. Social welfare was an ineffective instrument poorly targeted at the problem issues. Its contribution to reducing poverty and the marginalisation of the groups concerned is very limited.

What was missing were a clear concept and an adequate strategy to alleviate poverty. In the pursuit of creating a largely effective instrument of social security, the criteria to define needs

18 In May 2000 a law on decentralisation was passed, stipulating that 40 % of income tax was at the disposal of local governments. The funds needed for social welfare could therefore be increased.

and the respective entitlements were not established clearly enough. This had the consequence that the administration, which usually does not have qualified personnel, was soon inundated with tasks and financial resources were insufficient. Since there was no control mechanism, the usage and distribution of the financial resources were very different from one community to another. It was common that in the administration of social welfare the decisions were made arbitrarily, or the resources were used for different tasks or even misused completely.

Additionally, the provision of social welfare has not found real support, neither from those politically responsible nor from the population. The **low level of acceptance of social welfare** comes from the fact that it is a passive transfer service that does not require any service in return. It is aimed at groups that are already stigmatised by poverty, exclusion from basic social services, and marginalisation. Lack of solidarity together with the argument that the market economy gives a chance to all those willing to work contribute to the low regard for social welfare. Similar to unemployment benefit, the question here is to connect passive and active employment-promoting measures. In the communities there is great demand for so-called community services, which could be coupled to social welfare. At the same time, it is also a question of incentives, which, given the present level of social welfare, hardly exist.

An important instrument for social security, especially in families with many children, is the system of family related transfers. First comes **child allowance**, granted in Romania even before 1989. Similar to all income and transfer services, the child allowance has fallen in real terms and its level now, in spite of partial indexation and an evident increase in 1997, is below the level of 1989. The criteria for child allowance have changed in the respect that it is no longer graded according to income, nor to the number of children, but paid to all families with children likewise. Meanwhile, this allowance has become an instrument with little efficiency for social security. For families with high income, it is not important, for poorer families it is not enough to supplement income.

Given Romania's shortage of public funds, social welfare and child allowances have little efficiency and can only partially fulfil their task, namely give social security to those who suffer most from transition.

3 Education and employment policy

3.1 Situation of reform of education

The negative consequences of economic transition have also had an impact on education. The relatively well developed educational system in Romania is suffering – as other social sectors – from lack of resources and a general moral crisis. This is evident in the reduced enrolment rate at all levels, except for university students. In 1994-95, for a short period of time, there was a slight growth of enrolment, accounted for by the introduction of the preparatory year for primary education. In secondary school, the rate of enrolment decreased drastically from 90.7 % in 1990 to 67.8 % in 1998. The reasons for this include financial difficulties of parents, doubts in the use of education among the population and a high rate of unemployment among university and vocational training school graduates. The extension of compulsory edu-

cation to 9 years is meant, among other measures, to counter this alarming development (UNDP, 1999:52ff.).

The negative tendencies within education, which have not yet been overcome by the reform (see below), are:

- the grave disparities within the country (further regression of rural and underdeveloped regions)
- the bad condition of buildings and equipment
- the shortage of qualified teaching staff and low salary levels
- the drop in the number of school graduates with the necessary exam levels and the related consequences for human development and future supply of highly qualified specialists.

With regard to higher education, the tendency is towards an increase in students, from 164,000 in 1989/90 to 408,000 in 1998/99, out of which 32 % attended private education. The explanation for this is the limited number of students, the limited capacity and the relative high conditions of admission to state universities, but also the expectation of a better future in the private sector. Private education facilities with alternative education approaches (Waldorf, Montessori, Freinet, etc.) are also gaining in importance at pre-university level, starting with kindergarten and pre-school. All such facilities are only available to a limited number of children, usually from wealthy families. Socially and economically less privileged families can barely cope with the costs of public education, which is one of the reasons for the drop in enrolment rates in secondary education.

The **educational reform programme** started in 1990 and was targeted towards reducing the number of vocational high schools (in the second stage of secondary education), implementing new courses to support diversification and modernisation of the economy and promoting foreign languages. The controversial law concerning education, which was passed on 1 July 1999, confirms the results of the educational reform so far and restores the right of education to ethnic minorities in their mother tongue at all levels, as has been common practice before. The reconstruction of the Hungarian University in Cluj-Napoca was not approved, however (Munziger Archive, 2000:6).

The most important results of the educational reform are:

- the introduction of new curricula within elementary and vocational schools, with support from the EU Phare programme, expansion of vocational schools, new textbooks and re-orientation of higher education curricula in accordance with the demands of the labour market and European guidelines;
- the establishment of occupational standards and evaluation tests for vocational education;
- restructuring and unifying the demands for a high school graduation exam;
- decentralised management and financing of school and university education and the development and institutionalisation of social partnership as a consulting structure;
- training of trainers with the view to enable them to cope with new demands, curricula and responsibilities.

After a longer period of stagnation, the educational reform has produced some moderate progress since 1998. In comparison to other reform sectors, the educational reform is regarded as fairly advanced. However, further progress and success depend on economic development and financial means. Consequently, the reform is quite vulnerable.

3.2 Labour market and employment policy

The Labour Promotion Law No. 1/1991 is the legal basis for Romanian **labour market policy**. It has undergone several changes, but will be replaced by a new law, which has been under discussion since 1998. The passing of this law is among the priorities of the new cabinet and should be achieved by the end of March 2001, along with two other bills of the Ministry of Labour. For the time being, the bill of 'the Law for the Promotion of Labour Force' is being discussed by the National Agency for Employment (see below) and in employment exchanges. Other debates with social partners take place in the Social and Economic Council and other ministries. Generally, the new law is to reflect the change of priorities in the fields of labour market and employment policy, i.e. especially the prevalence of active measures. Therefore, passive measures shall be reduced in terms of extent and period of assistance, as mentioned above. Worth mentioning is the fact that employment shall explicitly be made more attractive to both employers and employees.

The Ministry for Labour and Social Solidarity (MLSS) is the highest authority for the labour market.¹⁹ The ministry was, and partially still is, in charge of preparing policies and wording and via the subordinate levels (until the end of 1998) for the execution of policies in the labour market and in the field of pensions, social insurance, families, remuneration, and health and safety at work. There are 42 general directors at district level, including Bucharest, who take assignments directly from the MLSS. The employment offices at district level and the so-called secondary offices, which were under the authority of these general directors, are meanwhile subordinate to the newly founded National Employment Agency (NEA). At present, there are approximately 170 offices (employment exchanges), varying in quality and size.

The law for the inauguration of NEA was enforced after it had passed through Parliament in 1998 and the National Agency started to work at the beginning of 1999. An important step for the further development of Romanian labour administration has thus been taken which is yet to be made by other transition countries. This step is a good basis for future reforms. The NEA is an independent body of public law and in charge of the execution of the labour market policy. Its administrative board has a tripartite structure. There are tripartite advisory councils at local and regional levels. The NEA does not have financial autonomy and is subordinate only to MLSS.

Besides passive measures, Romania has gathered valuable experience about how to use **active labour market instruments**. The following measures are offered: further training and retraining, wage subsidies for school leavers and university graduates, the creation of jobs

through subsidised credits for enterprises. During the execution of these measures, a series of problems have surfaced:

- further training courses for unemployed require by law an employment guarantee to be given by the institution that offers the course. Since this is often not possible, these measures have brought only limited relief to the labour market.
- wage subsidies are offered for almost all school leavers and university graduates no matter what level and degree. This has not only had the effect of disadvantaging the older and the long-term unemployed (for whom no special measures were taken), but also for well-qualified youths it is often the basis for unacceptable misuse. Additionally, this state support has caused employers to push aside older employees, since the additional employment of young people as part of a labour market policy measure is often not put under scrutiny.
- in the case of credits with reduced interest rates for enterprises that hire unemployed, several administrative hurdles have to be overcome and guarantees of employment must be given that often cannot be fulfilled. This made the programme only partially successful. Additionally, there are certainly considerable dead-weight effects.

These examples illustrate **the limits of the current active labour market policy** in Romania, which root back to incompetence and insufficient experience in the employment offices. Currently, the only possibility is to offer more general labour market programmes whose participants are identified through easily checkable criteria (e.g. age). This procedure partially leads to a distortion of the balancing mechanisms within the labour market and the outcome is an inefficient usage of the limited public resources.

In 1997 a special bundle of measures has been introduced to deal with mass redundancy,²⁰ which, at least to a certain extent, will help to overcome the bottleneck of advisory services and of offers to participate in active measures in connection with passive measures (severance payments). These measures include general advisory services and job mediation, consultancy for business start-ups, job-creation measures, training and further training, promotion of business incubators and support for the development of local and regional economic plans. These measures have actually begun not until mid-1998, largely as pilot programmes and exclusively carried out within the framework of the World Bank project "Labour market and social security". Experience gathered from these measures is therefore limited.

In the course of transition, the different Romanian cabinets faced new and extended challenges in the area of **employment policy**, as well as in other political areas. On the one hand, with the employment situation getting worse, the pressure to act rose. On the other, even developed market economies have so far very few models and experiences for successful employment policy. Since active labour market policy is only a bridge to the formal labour market, only targeted economic policy measures can actually create new jobs and truly relieve

²⁰ In connection with mass redundancies, five ordinances (no. 7, 9, 22, 69 and 98) have been issued since 1997. Cases are regarded as mass redundancy (by the ordinance 9/1997) if an enterprise that is at least 1/3 owned by the state (with 100 employees and more) makes at least 10 % of its personnel redundant.

¹⁹ The Ministry was renamed during the formation of the new cabinet (initially Ministry for Labour and Social Protection) to emphasise the more social orientation of the new government.

labour market pressure. In spite of this, in Romania employment policy has been severely neglected for various reasons.

The changing cabinets were unable to establish a conclusive economic programme. Ad hoc measures and lack of consistency were typical features of implementing reforms (e.g. in the privatisation process). An additional burden was that some economic-political instruments and measures were counterproductive with regard to employment policy. These include rather high taxes on the factor labour, i.e. income and wage taxes and social contributions and, in addition, a restrictive wage policy in public and social services and inefficient implementation of the minimum wage. Outdated regulations in labour legislation further hinder the balance of the labour market. Disproportionate wage structures which result from unbroken monopolies of state owned enterprises in certain areas also have a negative impact on employment policy.

The programmes and measures concerning employment were either implemented on a regional basis or for a limited period, and partially profited from financial support from abroad.

4 Conclusions and recommendations

The state of Romanian transition, the deficits described above and the recent change of cabinet faces the new government with political, economic as well as social challenges. In the context of the rise of rightwing nationalists the point is – regardless of the necessary criticism of the previous cabinet – **to consolidate the political situation** and to develop strategies that will find wide support, even amongst political parties that have been voted out of office.

The PDSR government programme, which was presented in January 2001, includes **economic policy measures** that should lead the country out of the prolonged economic crisis and clear away the blockages in the reform process as well as measures to alleviate poverty and promote employment. With respect to the macroeconomic situation, it is of primary importance to continue and stabilise the growth processes that have already started. At the same time, inflation and unemployment must be kept within limits. While the government programme has specific measures for the areas named above, some of them have already been enforced, the approach to structural policy as a medium-term task is still quite vague. It is important here to pick out and promote those economic branches that rely on the existing economic potential and have competitive advantages at international level. At the same time the remaining state owned enterprises must be reformed into efficient economic units, and incentives for more foreign investment be developed.

In the field of **social policies**, Romania faces the greatest challenges in areas such as:

- alleviation of poverty,
- social security, including pensions and healthcare,
- education policy and
- labour market and employment policy.

Undoubtedly, the most effective and sustainable strategy to overcome poverty is **to create sources of income** for the population affected. Under the circumstances in Romania today,

this can be only achieved in the long run. For the short and medium term the optimum strategy is to design an adequate social security system to help push poverty backwards. This includes to continue the **strategy to alleviate poverty** worked out in cooperation with UNPD, to evaluate the experience of pilot programmes and, if possible, to implement them nationwide.

In the area of **social welfare**, the first step that must be taken consists of efforts to clarify the criteria for receiving social welfare (need) and **the definition of target groups**, to possibly enhance financial flexibility. The next step should be to **involve those on social welfare in community work**. Furthermore, the administrative capacity, i.e. more staff and better qualification, must be increased. Binding and transparent guidelines on usage and payment of social welfare for the communities can put an end to the existing misuse and abuse of financial resources. Since this concerns public resources, appropriate control mechanisms should be created.

Child allowance, given the present situation, should be limited to families that really need it concerning the family income. The problem here is an additional work load on administrations, which will cost more than the money saved. As soon as the economic conditions are given and there are more financial resources for family transfers, the child allowance must be increased considerably.

The introduction of a **contributory health insurance system** is a major reform step in healthcare. This happened when Romanian healthcare was already in a desperate state. In future, too, important subsidies from the state will be necessary to finance and guarantee healthcare for the population and the general improvement of its state of health. Another **financial problem** results from the difficulty to record everyone obliged to contributions as well as from the unpaid contributions of many large companies. Weak points of the new system are, on the one hand, **the exclusion of an considerable part of the population** from health insurance due to long-term unemployment and employment in the informal sector. On the other hand, it is feared that even those who are entitled to medical services, cannot receive the services required because of additional payments for medical care and medicine.

Basically, it is a correct and important political decision to **reform the pension system** in Romania. However, the legislation of the former cabinet in April 2000 had two major problems:

1. The introduction of an obligatory pension, financed by capital funds as the second pillar, which should be financed to one third by the public pension insurance at first, would have led to deficits for the public pension system for the following 30-40 years;
2. Romania does not have an adequate insurance regulatory and supervisory framework for such an insurance.

Against this background the PDSR cabinet has decided to modify the expected reform. For the moment, the pay-as-you-go public pension scheme is preserved, the relevant law will be enforced with slight changes on April 1st, 2001. There will be no obligatory, privately financed pension. Instead, a privately financed enterprise pension that can be completed by

private investments should take its place. Steps to improve insurance regulation and supervision are also scheduled.

The **reform of the educational system** was one of the first projects in the social field passed and has already shown positive results. Further development and successful implementation depend to a high degree on the financial resources granted.

The passing of a new bill concerning **labour market policy** has been awaited for many years. Partial achievements are noticeable in the **reform of labour administration**. The implementation of legally required **decentralisation**, which has been quite reluctant so far, should give the **regional employment offices** more financial autonomy in the utilisation of labour market policy instruments. Instead of nationwide programmes, regional pilot programmes relying on local conditions, experiences and the responsibility of the employment offices could be started.

So far, the **majority of the labour market measures** in Romania were of a passive nature, which limited their effect and opened the possibility for misuse. The new cabinet intends to change the importance of the passive measures by promoting active measures and by making work attractive again. The second step is to shift weight within the active instruments by offering more **qualified advisory services and job mediation**, a strategy with a favourable cost-benefit ratio, compared to other means. At the same time, it could be a good way to **couple active with passive services** and thus to increase the impact of labour market interventions. Another important issue might be a **combination of different active measures**, for example a combination of qualification and employment promotion programmes. The application of improved and more efficient labour market instruments is successful only if it is possible to achieve an economic upswing, so that active measures can actually **help promote employment**. A modified economic policy must include explicit employment policy components, and the **social partners** must participate actively to ensure their fulfilment.

Romania is involved in a **long-term transition process** at present, which presumes a high level of social acceptance. At the same time – given the already existing and still expected social costs – suitable socio-political interim solutions must be found. An essential condition is that economic policy reform continues successfully and in such a manner that its results benefit the whole population. The government programme of the PDSR is essentially aimed at this goal.

Selected References

- Baier, H. / C. Schlarb (2000) (Ed.):** Frauen in Rumänien. Lebensberichte zur Lage der Frauen in Beruf, Familie, Gesellschaft, Kirche, Sibiu/Hermannstadt.
- F.A.Z.-Institut (2000):** Länderanalyse Rumänien. May 2000, Frankfurt/Main.
- (Jahreswechsel 2000/2001): Länderanalyse Rumänien. December 2000, Frankfurt/Main.
- EIU (Economist Intelligence Unit) (1999-2000):** Romania. Country Profile, London.
- (2000): Romania. Country Profile, London.
- (January 2001): Romania. Country Report, London.
- (February 2001): Romania. Country Report, London.
- Gesetz über das öffentliche System der Renten und anderer Ansprüche aus der Sozialversicherung**, April 2000, Bucharest (German translation).
- Howard, J. (2000):** Internationally recognised core labour standards in Romania. In: South-East Europe Review. Vol. 3, No. 2, pp. 81-85.
- Kausch, I. (1999):** Bewältigung der sozialen Kosten der Transformation. Arbeitsmarktpolitik und soziale Sicherung in Rumänien, Berlin.
- Kruse, B. (1998):** Zur Neugestaltung sozialer Sicherung in den Transformationsländern Mittel- und Osteuropas. In: Soziale Sicherung in Süd und Ost, Kirchheim.
- MacFarlan, M. / J. O. Martins (1998):** Romania. Macroeconomic Stabilisation and Structural Reform. In: The OECD Observer, No. 211, April/May.
- MLSP (Ministry for Labour and Social Protection) (1998-00):** Labour Market Statistics, Bucharest, unpublished.
- OECD (Organisation for Economic Cooperation and Development) (1998):** Economic Surveys 1997 – 1998. Romania, OECD Publications, Paris.
- (1998): Towards an Employment-Centered Social Policy, Paris.
- OstWirtschaftsReport (25/5/1999):** Wirtschaftsdaten, Vol. 27, No. 11, pp. 205/206.
- Racoceanu, N. (1998):** The System of Social Protection in Romania. In: South-East Europe Review, Vol. 1, No. 3, pp. 63-68.
- Munzinger Archiv (2000):** Rumänien – Soziales und Kultur. In: Munzinger Archiv/IH-Länder aktuell 47/00.
- UNDP (United Nations Development Programme) (1997):** National Human Development Report. Romania 1997, Bucharest.
- (1998): National Human Development Report. Romania 1998, Bucharest.
- (1999): National Human Development Report. Romania, 1999, Bucharest.
- World Bank / National Commission for Statistics (1999):** From Rural Poverty to Rural Development, Bucharest unpublished.

Serbia

Milan Nikolić

Director

Centar za proučavanje alternativa

(Center for Policy Studies)

Belgrade

December 2000

1	The development of the social situation in the last ten years	163
1.1	Political and economic background	163
1.2	Development of income and poverty	164
1.3	Development on the labour market	167
2	The reform of the system of social security.....	168
2.1	Health and health insurance	169
2.2	Pensions schemes	171
2.3	Unemployment insurance.....	173
2.4	Other social protection schemes.....	173
3	Education and employment	175
3.1	Reform of the educational system.....	175
3.2	Employment and promotion policy	178
4	Relevant policy actors.....	179

1 The development of the social situation in the last ten years

1.1 Political and economic background

The beginning of the 90s and the disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) hailed a period marked by a series of wars, long-lasting sanctions imposed by the UN Security Council, EU and USA, the so-called 'outer wall' which still exists today, and the NATO bombing campaign. Within the country, the social-economic situation deteriorated with the fall in the real GDP, periods of high inflation which culminated in the hyperinflation crisis of 1993, frequent devaluation of the dinar, an increase in unemployment. This led to a decline in overall living standards with the population's material status being more and more equalised so that it was 'equality in poverty'. A widening gap grew between the few who were well-off and the great majority of the ever-poorer citizens. As far as the social situation is concerned, it is generally accepted that the previous decade was marked by the continuous worsening of the overall situation in this area.

Yugoslav experts in the field of economy regard **inadequate economic policies** spanning over ten years and theft from the national economy as the primary causes of the current situation (damage estimated to be between US\$10-15 billion). A third cause is considered to be the NATO bombing, which, according to a group of economists from G17 Plus, caused nearly US\$6 billion worth of damage to the Serbian economy.

With this year's federal, presidential and local elections the process of democratisation in Serbia has begun. Researchers in Serbia consider 1989 to be the last 'normal' year in terms of almost every economic or social parameter.

For comparison see certain indicators for 1990 and 2000:

	1990	2000
GDP per capita in US\$	3,200	1,600
Actual expenditure per capita	100	60
No. of refugees	0	700,000
Death rate	10.8 per 1000	13.0 per 1000
Birth rate	+0.8 per 1000	-3.0 per 1000
Number of marriages	48,000	40,000
Index of ageing	67 %	90 %
No. of newly built flats	38,000	11,000

Milošević's political regime is considered to be most accountable for the catastrophic social and overall situation within Serbian and Yugoslav society today. Milošević's regime encouraged his entourage to steal from the population in many different ways: by snatching savings away from citizens (from old foreign currency accounts to the bank 'pyramids' such as Dafiment Bank, Jugoskandik etc.); ruining factories to enable Milošević's friends to 'privatise' more easily and more cheaply; organising political racketeering for the needs of Milošević's political campaigns; setting up a smuggling ring of goods in short supply from

neighbouring countries, controlled and licensed by the governing clique; initiating hyperinflation which enabled easy and hidden theft from the population, etc.

This policy of the previous regime was supported by the policies of the EU, the USA and the UN, which imposed sanctions and isolated Yugoslavia, which in turn enabled the legitimisation of Milošević's 'patriotic banditism' in Serbia. For example, it is known that Milošević's last resort to stimulate his loyal supporters financially was the 'distribution of smuggling licenses' (which was a direct consequence of UN sanctions). This came after the regime had exploited almost every other potential that the Serbian economy, now on its deathbed, had held.

1.2 Development of income and poverty

In July and August 2000, the Centre for Policy Studies in Belgrade conducted a sociological research about 'The **Survival Strategies** of Households in Serbia' with the representative sample being taken from the territory of Serbia, not including Kosovo. The most significant result of the research turned out to be the fact that as many as 85 % of interviewees thought that the way of life in their household had worsened over the past 10 years. Only 10 % of the interviewees declared that they lived as well as before, and an even smaller number, all of 5 %, stated that they lived better. For these very reasons, a major reduction in needs has been noted as one of the basic and most widespread survival strategies.

Products and services	(%)		
	Less money spent on...	Stopped spending money on...	Poorer quality
Food	35	0	48
Drink	48	5	44
Cigarettes	27	13	53
Clothes	64	6	59
Basic personal hygiene	38	0	45
Personal cosmetics	46	11	46
Household cleaning equipment	37	1	45
Holidays outside area of residence	52	30	62

Only 18 % of interviewees declared that the total **household income** was sufficient to cover the basic requirements (food, clothing, and bills). 42 % of those dissatisfied with their total income believe they need over three times more money than they receive, 18 % think they need 2 to 3 times more money, and 22 % that they need 1 to 2 times more money.

Exactly a year before this research was conducted, the local agency SMMRI carried out similar research for UNOCHA (UN Office for Co-ordination of Humanitarian Affairs). There, which one of the indexes of economic status was the evaluation of income sufficiency for satisfying basic living requirements.

Sufficiency of income	(%)	
	September 1999	July 2000
Income sufficient	25	18
Lacking up to 50 % of total income	11	15
Lacking between 50 % and 100 % of total income	22	18
Lacking between 100 % and 200 % of total income	20	15
Lacking over 200 % of total income	22	34

As shown in the table above, under the existing economic circumstances, the economic reproduction of households is developing with even more difficulty than a year ago. Not only the number of households that cannot satisfy what are thought to be basic living requirements with their total income has increased, but also in the struggle with living expenses their income lags behind all the more.

According to data from the 'White book of Milošević's reign' by G17 Plus, the percentage of a salary and a pension spent on electricity and municipal services went up from 32.15 % in 1995 to 64.22 % in 1999. Also, in December 1993 when hyperinflation reached its climax, during Slobodan Milošević's government, the average salary in Serbia, not including Kosovo, reached the lowest level of DM 21. This salary was supplemented with payments in kind. At the end of 1999, the average salary in Serbia, not including Kosovo, was only DM 87. As stated in the latest available data from August 2000, the statistical cost of a shopping basket for a four-member family is DM 227, DM 56.8 per member, and for an average non-agricultural household consisting of 3.01 members DM 170.8.

When considering the structure of the sources of a household's available income in Yugoslavia, the proportion of income from regular work is declining and the proportion of income from pension funds, social insurance and natural consumption is increasing, which clearly indicates a deterioration of the economic situation in the country and of the quality of life.

Another striking fact is the constant impoverishment of the Serbian population. The poor have not been the subject of research or been of any serious social interest for many years. The main reasons for this have been the marginalisation and the concealment of **poverty**, especially in the period before 1990 due to the ideological projection of socialism as a system of social equality and justice. The simplest illustration of this trend, which has spanned several decades, is the fact that not even today in our country, either in the absolute or the relative sense, poverty is delimited. More precisely, it is not based on an existential minimum, but, a priori, on an administrative 'choice' of a fixed percentage of average monthly net salary per worker in the economy of the Republic. Hence, those families/households whose total (family) income is less than the arbitrarily defined amount (defined according to the size of the household) have the right to financial security.

From the beginning of the 90ties, all the negative economic processes were intensified to such an extent that a catastrophically large proportion of the population was impoverished. In spite of this, there is only one source of data on the income and expenditure of households in Yugoslavia: 'A questionnaire into household expenditure', which was conducted by the Federal Statistical Office as part of regular statistical research. According to data from this questionnaire for the period of January to June 1997, the percentage of poor in central Serbia was 64.6 % and 60.5 % in Vojvodina. Almost half a million citizens lived in conditions of **absolute poverty** (defined as the family income being insufficient to cover 50 % of the shopping basket). If one compares expenditure on the 'shopping basket' to the net earnings of employees in state and social firms, one comes to the shocking conclusion that with their earnings approximately 2/5 of employed people could not even cover the cost of the 'shopping basket', which accounts for only one basic need – food and drink. It should be kept in mind that the data refer to the time before the beginning of the war in Kosovo and NATO intervention. Since this time the overall social and financial position of the population has deteriorated even further.

According to every criterion, **urban families** are in the most trouble, whilst heterogeneous households are in what is relatively the most agreeable position. Unmistakably, the data indicate that poverty, which once had a predominantly rural character, has come to towns and affects the urban population on a large scale. Hence, the poverty coefficient of the urban population in 1997 rose as high as 67.4 %. This most striking change, when compared to the structure of poverty before the collapse of SFRY, can be seen in all regions of Yugoslavia. The opportunity for natural manufacturing, which was considered retrograde and an anti-civilisation phenomenon, plays a significant positive role here in times of crisis and economic decline – it helps not only to survive, but brings along a relative 'improvement' of financial status as well.

As stated by CPA/CPS in the research mentioned earlier, one of the most important survival strategies of households in 2000 is the turn **towards self-sufficiency to satisfy needs**. According to the data gathered, roughly 60 % of households produce a certain amount of food and drink for their own needs themselves, 33 % make and mend their own clothes, 39 % repair their own household appliances, 54 % undertake the upkeep of their own flats by themselves, and 24 % of citizens repair their own cars.

The worsening in the living standards of the population has been, however, followed by the reverse trend in the area of social security – the number of people registering because they are in financial trouble is decreasing. According to the **official criteria**, only 1.4 % of households in the Republic of Serbia are affected by poverty. Along with streamlining the category of 'the poor' and in that way decreasing the number of those directly receiving welfare, the former regime was de facto stemming the influx of poor people into the contingent of the officially acknowledged poor. For these purposes, the following mechanisms were used: keeping the labour surplus among the employed, securing wages even when factories are not running, encouraging the grey economy and the voluntary determination of delimiting poverty, which did not have anything to do with the existential minimum.

1.3 Development on the labour market

The past ten years have been characterised by the trend of a continually declining level of registered employment. **Employment** figures fell from 2,790,000 in 1989 to 2,331,000 in 1997. The average rate of this decline was 1.8 % per year.

In order to understand better the situation regarding employment, in addition to the decline in the economic activity of the population and the level of registered employment, another two characteristics should be noted: a) **unregistered employment** (the grey economy and 'unlicensed work'), and b) the insufficient engagement of the employed (a labour surplus or hidden unemployment). Insufficient engagement or **under-employment** occurs in those businesses where the number of workers employed is greater than the number required to secure a certain level of production. As early as 1990, immediately before the disintegration of SFRY, insufficient engagement was already at a higher level than official unemployment, amounting to 19.7 %. Later, the limitations imposed on dismissing the labour surplus in the state sector at the time when UN sanctions were in force (as a measure for preserving social order) contributed further to the unsettled situation and additionally complicated this problem. Although the GDP in the Federal Republic of Yugoslavia fell by 50 % from 1990 to 1996, registered employment decreased by only 12.7 %. This certainly brought about a marked increase in the labour surplus. Evaluations of its level vary from 34.3 % (Pošarac) to 47.7 % (Dinkić).

Under the current circumstances, firms have turned towards the strategies of drastically reducing salaries, paying them not regularly, and also sending employees on so-called paid or unpaid leave. According to official statistics, the scope of which is incomplete, there were 300,000 workers on paid leave in 1996, i.e. on compulsory leaves. Different evaluations suggest that the number of workers sent on leave at certain times was sometimes even 1.5 to 2.5 times more. (Report on humane development, 1996). There could be even a million workers on paid leave at certain periods during the sanctions.

Over the course of the 90ties, the growth in official as well as hidden unemployment escalated. The number of people seeking jobs in 1997 was 814,000, which was 207,000 more than in 1989. Official unemployment increased by somewhat more than one third (34.1 %). Over the past ten years the unemployment growth rate has been as high as 3.9 % per year. According to the evaluations of G17 Plus, in 1999 actual unemployment began at a level of approximately 32 %, which indicates that one in every three Serbian citizens who are able to work are unemployed. For many years now, women have made up the greater share of the unemployed, whilst individuals aged up to thirty and those looking for employment for the first time also dominate in the statistics.

Under these circumstances, the grey economy spread widely serving as a sector of additional employment and as an absorber of social protest. The great number of workers on paid leave is engaged in the grey economy. They are, at least in the formal sense, still employed, but their small income forces them to do it. These employed workers have health and pension-disability insurance contributions covered by the formal sector (state and social), which made them even more attractive to the grey market as they could accept any job and any risk.

At the same time, a **high level of migration** of Serbs from Croatia and Bosnia (which lasted until 1995, then with the NATO bombing came another large wave of refugees from Kosovo) significantly influenced the economic and other structures of the society, as well as the general characteristics of the Yugoslav labour market, which in turn affected the level of the grey economy. In other words, the number of population categories obliged to accept any kind of a job, regardless of legal regulations and other formal conditions as well as the risks associated with it, increased. Basically, survival appears to be the main motive for participation in the grey economy, which in times of general crisis acts as a shock absorber for social tension, through alleviating the effects of severe and unfavourable changes in the regular economy.

Assessments of the grey economy in the Federal Republic of Yugoslavia (FRY) indicate that GDP was considerably higher than that recorded by official statistics. In other words, the grey economy grew in those economic activities which play a part in **creating GDP** (registered and unregistered) – in 1991, it amounted to 24 %, in 1993 35.2 %, in 1995 29 %, and in 1997 25.7 %. The greatest relative importance of the grey economy came during the time of hyperinflation in 1993 when it was greater than half the registered social product (54.4 %) and more than one third of total economic activity (35.2 %). There are estimations that the grey economy forms up to 70 % of total economic activity, but given its partial “illegality” cannot be registered. According to research by CPA/CPS, in 2000 12 % of the population regularly engages in some sort of grey (or black) economy on a daily basis, whilst a considerably greater number, 30 %, do so only occasionally.

Social experts suggest measures for narrowing the scope of business done in the grey economy, which could be accomplished in three ways:

- a) by method of integration, i.e. through systematic changes which would improve the functioning of the economic system and its institutions;
- b) by the method of legalisation, i.e. through the creation of favourable conditions for coordinating a part of irregular business within formal conditions (a one-off measure for doing business which does not have a criminal nature);
- c) by method of elimination, i.e. through administrative repression undertaken by bodies of surveillance, control and inspection, which would also include severe penalties. (Krstić, CPA/CPS).

2 The reform of the system of social security

The fiscal sovereignty of the republics is characteristic for the fiscal policy in the FRY. In other words, public spending in the FRY, through the Federal budget, is extremely low when compared to republic levels. The expenses of the social security system at the Republic level amount to 65 % of total public expenditure. They are met through the budget of the Republic of Serbia and funds from compulsory social insurance contributions. At the level of the Federal government there is a very modest share for the **co-financing of the social security system**. This covers the financing of veterans' care and pensions, humanitarian aid, funds set aside for the Yugoslav Red Cross and for the health insurance of army personnel whether in active service or retired, additional funds for the financing of old-age pensions and disability

insurance of army personnel, as well as funds for the education and upbringing of Yugoslav children overseas.

2.1 Health and health insurance

"Ladies and gentlemen, there is no more money. It is time we thought about what to do!" This is the motto of a study undertaken by a group of experts from the Medical School, University of Belgrade, for the Centre for Policy Studies about the basic directions reform of the health-care system should take in the Republic of Serbia. It is perhaps the best illustrator of the existing conditions in our health service and the problems it is faced with.

Unfortunately, the situation in the **healthcare system** is only just bearable and any further decline could easily bring about the partial or total disintegration of the existing health service. The decline in the financial position of the health service is as a direct consequence of the extremely unfavourable social conditions in our country throughout the past decade. In other words, it is a result of the aggravation of the social-economic situation and of incapability and indifference on the part of the previous regime. The **negative changes** in the health-care system and the health of the Serbian population closely follow trends common to all countries in transition that are not able to preserve the previous level of welfare availability and which are, as a consequence, facing a **deterioration in the health** of their citizens.

Although the relative funding given directly for the needs of the healthcare system as well as for other areas connected with health (education, social security, housing, water supply, science, culture) is significant, in absolute terms it is not sufficient to cover the basic needs: 9 % of the budget of the Republic of Serbia (only US\$978 million) was assigned to healthcare in 1999.

The current situation in health institutions is extremely difficult as there are not even the essential conditions to offer healthcare to the citizens. There is a deficiency in medicines and other necessary medical resources, a lack of hygiene equipment and of spare parts for pieces of medical apparatus that are already worn-out, and sometimes even a shortage of heating and drinking water. There is often insufficient food for patients and it is frequently of an extremely low quality. Hospital stays in Serbia demand additional and almost daily care from relatives and friends, which adds to the already overburdened social situation of the population.

Certain indicators of the situation, such as the distribution of health resources, the expenditure on health care per citizen and the ratio of hospital beds, doctors and other health service workers to citizens, suggest there are great inequalities according to geographical area. As a rule, healthcare and the level of health services is better in larger towns and in the north of the country. Besides this, one of the (negative) characteristics of the healthcare system in the Republic of Serbia is its **marked centralisation**, which has certainly been influenced by the current legislation in this field dating back to the beginning of the 90s, more precisely to the passing of the Healthcare Law and the Health Insurance Law of 1992.

In addition to **financial difficulties**, the health service is facing numerous problems concerning its organisation and the way it functions. The authors of the study concerning the health-

care system consider the following problems to be the most important ones: the centralised and bureaucratic administration; the lack of information and the decreased accountability of the system; the unequal treatment of private practices and the retarded process of privatisation; doubling the capacity; the inadequate education of health workers en masse; the absence of motivation and a dehumanising in the attitudes to patients; the absence of clearly defined and transparent policies for supplying high-technology equipment; limiting the freedom of choice for those using healthcare; disregarding the rights of the patients, etc.

Unfortunately, over the past ten years the health system in Serbia has also been destroyed by a **marked ideologisation** and an insistence upon personnel who were politically suitable. The health service was almost entirely taken over by the Yugoslav United Left party (JUL), whose members have also held the relevant ministers' posts in the past few years. Relying on the belief that the nation then thought higher of doctors than of teachers or priests, the Milošević-Marković team endeavoured to use the health service and its workers as much as possible for political aims. Within their parties, and especially in JUL, as well as in parliament itself, there were a great number of health workers and managers of prestigious private clinics and other health institutions, whose aim was to gain more political support for SPS and JUL.

A relatively large number of qualified medical staff is the only positive thing that actually remains for those using healthcare in Serbia after all the years of ruin. However, there are certain problems in this area as well because the generally poor state of affairs in healthcare has led to, among other things, a decline in professional morality. This is reflected by the poor attitude towards those using the health service, the inactivity and disorder, as well as, in numerous cases, the acceptance of bribes for giving medical services that legally should be free. Research of public opinion on corruption carried out by the Centre for Policy Studies in April 2000 shows that the population views the health service as the system with the highest frequency of so-called petty bribe taking, more than Customs or the municipal services. Of course, this could be forgiven when one considers the average net income of medical workers: in the first half of 1999, they ranged from DM 130 in health centres and clinical-hospital centres to DM 315 at the Institute for Heart Disease (data taken from the CPA/CPS study on the reform of the healthcare system). On the other hand, we have to consider the facts that the medical services provided by the current health system are needed most often by those who have no money to pay for a private doctor and that the average salary of citizens is even lower than the average health service income (on average about DM 90 a month).

What are the necessary measures for reform? It would not be possible to conduct a reform of the healthcare system without first reforming the entire socio-economic system. Also, every reform, no matter how well conceived, is doomed to failure beforehand if there is not the **necessary financial support**. The means needed for these purposes should be expected more in the form of credit and other forms of material help from abroad. In the meantime, it is possible to start preparing a programme of reform, bearing in mind the conditions of the European Union and of specialised international agencies, such as the World Health Organisation. It is necessary to **define the priorities** in the area of healthcare and to formulate health policies at a national level. It is also necessary to persist in the development of a **compulsory health insurance** system (the Bismarck model) as it is more appropriate for countries in transition. In the transitional period, one may consider putting the dealings of the existing state agency

for collecting fiscal income (the Republic Bureau of Health Insurance) on an economically sound footing. For this purpose, countless economic measures, which will not be enumerated in this study, should be introduced.

In any reformed system of healthcare, it is necessary to conduct a redefining of the content and scope of healthcare, i.e. of all the elements that make up the basic package of services. The costs for the minimal package in developing countries (of which Yugoslavia is one) do not exceed US\$ 22 per citizen per year. It is necessary to **orient towards primary health-care**, as has been the case in our country up till now, though mostly only formally. Above all, this means the introduction of doctors specialising in general medicine/family medicine who, according to the author of the health system reform study, would represent the 'guardian of the gate' which provides access to the system and who would direct people to higher levels of care, not merely being 'an officer or distracter' who generously gives prescriptions according to patients' wishes.

2.2 Pensions schemes

The **payment of pensions** represents the largest item in Serbia's state budget and was allotted 18.6 % of revenue (i.e. somewhat more than US\$ 2 billion) in 1999. Under the current system, pensions are paid from the income of the current budget as the entirety of the pension fund has been misspent over many years. Considering the fact that budget income is regularly lower than budget expenditure, those responsible in the Milošević regime decided literally to slow down certain payments, in such a way 'stretch' them over a longer period of time. Generally speaking, pensions are paid irregularly (payments are almost four months late) and they are too small to satisfy even the basic needs of pensioners.

For a long time the pension system was one of the basic pillars of the Milošević regime and he managed to manipulate it so as to produce positive political effects for himself. Thus, before every election he gave the pensioners, albeit whose insufficient pensions were already several months late, higher pensions, in that way securing over a million votes in his favour. A series of dramatic changes and processes – such as wars, the devastation of the economy, general impoverishment, criminalisation, the destruction of social institutions, and conflict with NATO – were necessary in order for it to become clear that mere pre-electoral tricks were not the solution to the problem of the irregular payment of pensions and the insufficient means for their payment. What became obvious was that important political changes were needed, and these included the departure of Milošević.

There are approximately 1,800,000 people making **pension contributions** and 1,260,000 people receiving benefits from the largest fund – the Republic Old Age and Disability Benefits' Fund for Employees in Serbia, the total value of which is nearly DM 800 million. The average pension in this sector is a little over DM 70 (the lowest band being a little over DM 30 and the highest over DM 300). The ratio of those paying contributions to those receiving a pension in this sector is currently 1.43:1.

In addition to this, there are also pension funds for the self-employed and for farmers (data on retired military personnel is still not available). As far as the fund for the self-employed is concerned, there are somewhat more than 180,000 people paying contributions (amounting to

approximately DM 30 million per year), whilst somewhat more than 39,000 are receiving old-age benefits in this category (the ratio is 4.7:1 in favour of those paying contributions). The average pension in this case is also just over DM 70. Roughly 480,000 farmers pay contributions into the pension fund for independent farmers (total around DM 23.5 million) and there are 200,000 receiving benefits (a ratio of 2.4:1). The pensions of independent farmers are extremely low and on average amount to DM 14.

Generally speaking, towards the end of the 80ties, the **ratio of employed people to pensioners** was 3:1, whilst the proportion fell to roughly 1.7 employed people to every pensioner towards the end of the 90ties, according to data taken from G17 Plus.

The basic problem with **pension funds** is the mass of confusion surrounding the sources of their income as well as the use of their financial resources. Many funds are being irregularly and insufficiently paid into, even in the state sector, since many of Milošević's associates, directors of large firms, were 'exempt' from the legal commitments of paying contributions into pension and other funds during his ten-year-long rule. In addition to this, many payments are several years late. Finally, it is known that the financial resources from the various pension funds were used illegitimately and illegally by Milošević's regime for its needs, for which, for the most part, there are no written records of any transactions.

The first step that needs to be undertaken with regard to pension funds is to review the situation and to sort out the documentation as much as possible. Then, it is necessary to create a list of those who owe money to the various pension funds. Following this, a review needs to be made, if and as far as possible, of the illegal and misguided spending of the pension funds, as well as a consideration of the possibility of restoring some of these funds through the transfer of real estate, or by inclusion in incomes or rents, etc., etc. Finally, it is necessary to reassess the situation as regards the total income and expenditure of the existing pension funds and, on the basis of this, to determine further policy for the development of the pension system.

The problem of Serbian, as well as of many other European societies is, generally, the fact that the number of those paying contributions to pension funds is dropping, whilst the number of those receiving benefits is forever increasing (above all, as a direct consequence of the ageing of the population). The proportion of people's income paid into pension funds is so high (over 25 %), they can hardly endure any greater burden. Only if pension funds are given an economic function, which could be done in several ways, it can be expected for their income to just about cover their expenses. Another way to compensate for the lost resources is by means of a new, **more adequate and more just taxation system** (a system of progressive taxation) to direct a part of the money collected into pension funds, too. Over a million and a half pensioners (all of whom have the right to vote) form a fairly large pressure group, on which every government has to depend (or which it has to dread). Therefore, in 2001 it is probable that the Serbian government will have to deal seriously with the **reform** of the pension system, which will come in the form of a compromise between existing economic and political circumstances on the one hand, and European models on the other.

2.3 Unemployment insurance

There is a weakly developed safety net for protecting the unemployed in the Federal Republic of Yugoslavia. This includes rights, activities and measures in the area of promoting employment (**active measures**) and financial compensation for the unemployed on the basis of unemployment insurance or welfare support for the families of the unemployed (**passive measures**). However, these measures are directed only to those who lost their jobs, i.e. not to all the unemployed. In the past couple of years, passive measures have had a tendency to grow, whilst the unemployed are still given welfare support, i.e. financial security for the family, though their level in terms of the structure of those receiving benefit (35 %) is continually diminishing. In addition, the level of benefits and payments, which are irregular, is low.

In 1999, only 0.7 % of the budget in Serbia (i.e. around US\$80 million) was set aside for helping the unemployed, which was not enough given the current level of unemployment. Especially when we take into account that this help is not directed towards people who are looking for a job for the first time.

Given the current situation, it seems important to begin working on the **implementation of urgent measures**, to continue the reforms of institutions within the labour market, as well as to create a strategy for employment. Urgent measures should include: providing regular payment of financial benefits to the unemployed and financially securing their families (welfare support of the unemployed); financing the wages of workers who are on paid leave, which should be treated as a part of the social transfer for unemployment support, and as compensation for unemployment resulting from special circumstances (sanctions, economic blockade, bombing). Further measures should be an evaluation of the state of the job market with regard to the existing availability of the labour supply; carrying out an evaluation of the programme of the Labour Market Bureau and preparing a new employment strategy; starting preparations for establishing a social consensus among social groups (the state, employers, trade unions). (Zajic', G.).

2.4 Other social protection schemes

Welfare programmes are financed from the Republic's budget, as part of the funding for elementary requirements. These basically deal with childcare, social care, and disabled and veteran care.

Childcare includes the right to maternity leave, maternity payments, aid to refugee mothers, child allowance, financial help for buying baby items, money for pre-schooling for a third child and every one thereafter, and all this in municipalities or regions with a negative population growth rate. There are around 56-57,000 new mothers in the Republic, approximately 42,000 of whom receive maternity payments, around 720,000 children who receive child allowance and over 10,000 getting new-born baby support. In 1997 and 1998, 16 % and 12 % of the funds of the Republic's budget respectively were set aside for this purpose.

Programmes of **social care**, as a particular form of individual and family care, include financial security, a career's allowance, welfare-provided accommodation and help for getting people back to work. 4 % to 5 % of the Republic's budget is set aside for this purpose. Disabled

veteran care, as supplementary care (the basis for which is provided from the Federal budget), receive about 100,000 people (1.7 % to 1.8 % of the funds of the Republic's budget). A special form of care is for refugees for whom approximately 2-3 % of funds are set aside from the same source annually.

One should keep in mind the fact that in Serbia there are a **large number of refugees** from Croatia, Bosnia and Kosovo. Today, about 700,000 refugees from Croatia and Bosnia live in Serbia. According to figures from the Belgrade Centre for Human Rights, the majority of refugees (54 %) are living in parents' or friends' homes, whilst 29 % have found accommodation for themselves. Only 5 % are owners of residential property in the territory of the FRY. The government of the FRY does not give exact details on the number of refugees housed in collective centres, but from this data it would follow that they amount to about 20 % of the total number. The government does state that of the total number of refugees, about 57,000 of them live solely on humanitarian aid. According to data from the report 'Human rights in Yugoslavia 1998' published by this centre, there are approximately 143,000 registered **refugee children** (26.6 % of the total number), of whom 683 children have lost both parents in war, and 6,915 have lost one parent. One quarter of these children are younger than 7 years old. A report for 1999 published by the same organisation states that there are an extra 300,000 refugees (internally displaced persons) from Serbian and other non-Albanian ethnic groups, who fled Kosovo in the period from the arrival of KFOR troops to November 1999. In other words, there are around 1 million refugees or somewhat less, bearing in mind that a small number of them have returned to Croatia and Bosnia or left for the third countries.

On the whole, refugees are cared for by international humanitarian organisations rather than the Serbian government. At the same time, however, they represent a massive additional burden on the social welfare system in Serbia. Even with the initiatives to return refugees to their previous places of residence, it is estimated that the majority of the present refugee population, probably up to 500,000, will stay in Serbia.

What is characteristic for all social security benefits is the fact that not a single one is paid on a regular basis. Because of this, there has been a continuous tendency to make payments only under threat of social unrest (strikes and the suchlike). The over-centralised nature of public spending at the Republic level, in a situation where there are unsatisfactory funds for all needs, has led to the system of financing public expenditure, particularly in the domain of social security, being based on the rule of the stronger. The financing of those functions where the beneficiaries are more organised and aware is more regular and in the right amount. In this way, the salaries of the labour surplus (particularly in the metal industry), pensions, and the salaries of those working in education or health care are less delayed than the payment of family allowance, disability allowance or farmers' pensions. For example, the payment of maternity allowance (the right to monthly financial support held by all those unemployed new mothers) or one-off help given for items for new children is over two years in arrears.

According to a mass of research into public opinion carried out by CPA/CPS during 1999/2000, the fundamental reason for the people of Serbia rebelling and rising up against the Milošević regime was that it had brought about, through its poor policies over many years, the state of financial misery in which the majority of the population now lives. Milošević's election fraud was, therefore, just a legitimate motive – but not the most significant reason – for

rebellion and for the assault of the people on the odious institutions of the regime on 5th October 2000. Other reasons certainly contributed to DOS's emphatic victory in the September elections in Serbia: wars, repression and a lack of freedom, conflict with NATO, a loss of territory in which Serbs had lived, etc., etc. However, the results of research point to the fact that, above all else, the most important reason for his fall was the **dramatic worsening in the living conditions** of the majority of the population during the 13 years of the Milošević regime. Last but not least, another important reason for the loss of sympathy for the Milošević regime was that it never once honestly thought about the interests of the majority of citizens, nor did it undertake any kind of welfare policy that would have at least alleviated the pain of all the traumas that the citizens of Serbia and Montenegro had suffered over the past decade. Milošević, allegedly a nationalist, in fact only cared about himself, his family and the close circle of devotees around him. The foreign bank accounts of the members of his regime, in which, according to some American sources, lie several billion dollars, bear testimony to this.

According to experts working with CPA/CPS, the basic **directions of reforming the social security system** should take are:

- an altering and modernising of the service,
- a partial change in its concept – a movement towards the concept of active help by way of education, through concepts of self-help and specific differentiated help for those who are not in a fit state to be educated or to join the system of self-help.

For steps such as these, great funds are needed as well as a democratic (one could even say *social*) state that looks after its poor, its old, its young, its handicapped, and all those who are not capable of looking after themselves. Beneficiaries of the social welfare system having priority should be: children without parents, the sick and the handicapped, as well as the old.

The new government of DOS should take into account the misery in which the majority of the population lives, their wish for things to change for the better as soon as possible, and also ensure that economic policy (for example, shock therapy) does not harm the interests of the majority of people. In other words, it is necessary for a **new social policy** to follow the steps of economic reform. Whether this take place depends on the results of the next elections in a year or two years' time. It is also clear that reforms will be endangered or at least slowed down, if DOS fails to win these elections. It follows from all of this that one of the most important elements of reform within Serbian society is the creation of a new welfare policy alongside political, legal and economic reform.

3 Education and employment

3.1 Reform of the educational system

In 1999, only 4.4 % of the budget of the Republic of Serbia (somewhat less than US\$500 million) was spent on education, which is, according to all criteria, far too little for a country with this level of development. The reason, of course, was that Serbia had been in a state of economic and social decline for the previous 10 years, and finally that the Milošević regime did not care too much about an education system that bred its most vehement opponents. The new

democratic DOS regime, on the other hand, must **invest in education** a far greater proportion of budget funds, which would represent the best investment in the future of Serbia. However, it is clear that all this will have to be within the framework of what is possible, which will be determined by economic development and political decisions about budget allocation.

SFRY had one of the best education systems in Eastern Europe in the period following the Second World War, thanks to its version of a more liberal socialism and because many professors and teachers had been educated or had specialised in the West due to the political openness of the country. However, more than ten years of Milošević's regime, the disintegration of the former Yugoslavia and the wars which resulted from it, have resulted in the **degradation of education** in Serbia. Today many elementary and secondary schools, as well as colleges are neglected, impoverished, without the necessary teaching equipment and, often completely unsuitable for educational work. Problems of leaking roofs, parts of buildings in states of disrepair, unreliable or non-existent heating accompanied by frequent reductions in the electricity supply are currently the greatest technical problems for the majority of schools, but particularly for those in the poor areas of the provinces. A particular problem posed in schools is that school kitchens and toilets are in a state of neglect, if indeed they exist at all.

Irregularly and poorly paid teaching staff in the schools, who, therefore, generally lack the motivation to go about their teaching. For a considerable time now, there has been a trend towards the negative selection of teaching staff (which unfortunately doesn't only arise in this field). On the one hand, those who are more expert, more qualified, or, quite simply, more capable of adapting to the new social circumstances are generally leaving the educational system, whilst on the other, the filtering of teaching staff according to ideological or nationalistic criteria has begun. In this way, one set of qualified teachers has been forced to leave the educational sector, making way for another set of politically suitable non-professionals to go into schools.

The situation is also alarming when one considers the process of training the new generations of educators. The **teaching profession** has proved very unpopular for some time now, so all the more frequently it happens that the students who enrol at the schools in question (the teaching faculty and specialist courses at certain other faculties) are those who have little chance of enrolling in some other area of study due to their poor marks in the relevant subjects. An additional problem is the fact that the teaching faculty and other teacher training institutions in Serbia have over time become conservative and ideological bastions of resistance to all things new and progressive due to the political indoctrination, control and manipulation engendered by the Milošević regime. Therefore, a career in education has become less and less attractive to those among the best of the younger generation.

The pupils, who themselves live in a society with developed anomie, have reacted to this decline in the quality of schooling by showing less interest in lessons and acting with less discipline – which also makes teaching harder and less attractive. Alongside all of this, there is a high prevalence of drugs, crime and other forms of social pathology in schools, which the police and educational authorities are trying, often unconvincingly, to wipe out.

Teachers and professors have all the more frequently reacted to the deterioration in working conditions, the rapid decline in their living standards, as well as to the ever greater manipula-

tion from within political ranks beginning in the mid-90ties, (particularly noticeable in the period of political ferment from 1996-97) by striking. Due to such **strikes** in recent times, up to 10 % of the total number of lessons have been lost each year. In addition to this, many schools have started to work to rule, according to the legally allowed minimum number of teaching hours, with the duration of a school lesson being shortened by one third – from 45 to 30 minutes. Students frequently support their teachers, although there have been cases of them striking against their teachers, demanding various privileges for themselves. In the last few years, instances of pupil/teacher strikes in schools that have an expressed political conviction, i.e. against the Milošević regime, have been noted all the more frequently. However, one of the consequences of such a practice is the fact that pupils/students enrolling in or after 1997 will have lost on average close to 1½ years of schooling by the end of the school year 2000/2001 alone.

A particular problem in Yugoslavia, which today is even more present in Serbia, has been the **discrepancy between the workforce the economy demands and the educational structure of the young people** finishing school or graduating from the universities. For example, the majority of approximately 400 vocational schools in Serbia began to lose touch with the real needs of the economy and social services more than 25 years ago, so that by the end of the 90ties (estimations for the 1999/2000 school year) nearly 80 % of vocational courses which can be studied at secondary schools or colleges were not adequately structured in order to achieve the desired function. Taking into consideration the deep state of crisis which the Yugoslav and Serbian economies find themselves in, there is no realistic possibility at the present time for reducing the existing discrepancies. Unfortunately, if we were to school people only for existing jobs, the majority of the younger generation would not receive the type of education which life in contemporary society demands. On the other side of the coin, it was the dissatisfaction of numerous young and educated people who could not find suitable jobs which was one of the driving forces behind the resistance to Milošević's regime, and which will, in the future, continue to be one of the most powerful forms of pressure on the new, democratic government to form itself quickly and to make radical changes in the society.

Those **measures** which **urgently need** to be implemented in reforming the education system, to ensure independence, are:

- the increase in salaries for those working within the system;
- the repair of school premises;
- the introduction of a more contemporary educational programme and curriculum;
- the foundation of a new non-government organisation 'Teachers and parents for a better education', which would deal with all the problems of elementary and secondary education;
- placing a duty police officer in every larger school;
- the modernisation and computerisation of school equipment;
- bringing the training of future teaching staff up to date;
- and the introduction of occasional short periods of study leave for teachers.

The problem with implementing these ideas is that they require significant funding, a government which has a clear and planned concern for education, and the development of the economy, which acts as a foundation to it all. All this, therefore, will be possible only in the longer term.

3.2 Employment and promotion policy

The **new employment strategy** should be based on a realistic insight into the situation in the labour market, an evaluation of the effects of employment programmes undertaken up to now, and a new vision of job-finding services. It should consider hidden unemployment and enable the implementation of structural changes to the labour market. Businesses which favour a strategy of optimal use and development of human resources should be given appropriate support. A system of measures and institutions should be developed for supporting the self-employed. In the new environment, employment programmes aimed at groups of unemployed, which should have priority in an employment strategy, may have a greater effect than was the case in the preceding period. A separate policy of support should be undertaken to absorb those members of the workforce who are difficult to employ into the working world (people with special needs, the chronically unemployed, etc.).

It is also necessary to ensure some sort of **co-ordination between education and employment strategies**, which would plug a gap spanning many decades caused by the lack of a rational policy geared around the workforce, to best use the human resources in our society.

The political implications of an employment policy: One of the suggestions from experts for solving partly the problems of unemployment relies on the EU giving certain funds for the repair and improvement of the quality of the transport infrastructure (waterways, bridges, roads, tracks, intersections, bypasses, etc.), needed for better communications between South-eastern and Central Europe, a task on which many of the unemployed could work. It is a similar scenario, according to criteria of economic viability and local employment requirements, with the reconstruction of a certain number of plants involved in the metal, chemical and oil industries destroyed during the NATO bombing campaign. A good example of this is the Zastava factory complex in Kragujevac, which once employed approximately 40,000 workers and enabled the whole town to live from its work, where it will be necessary to find a compromise between economic viability and the local need to employ the largest number of workers.

An additional problem, so it seems, will be the viewpoints as already indicated in preliminary talks between representatives of the Republic and Federal governments and representatives from the IMF and the World Bank, who have recommended additional redundancies among the labour surplus on the one hand and freezing employees' salaries at the current level, on the other. However, it is obvious that the future government will have great difficulty heeding this kind of advice, seeing as how the unemployed and those who will become so are potential voters.

4 Relevant policy actors

Within the category of institutions and interest-based organisations representing the population with regard to social problems are found trade unions, pensioner associations and several non-governmental organisations that, albeit sporadically, represent the interests of those with social problems.

Trade Unions: The trade union scene in Serbia is virtually in tatters. It is comprised of several large trade unions and a multitude of smaller organisations. These trade unions often have some sort of ideological or political rivalry, and it is only recently that they have begun to work together. All in all, and mainly due to the fact that the number of unemployed is so large, the trade unions' power is limited. Currently, a favourable fact is that one of these trade unions (ASNS – the Association of Free and Independent Trade Unions) is a coalition partner within the DOS framework (the Democratic Opposition of Serbia), so it can be expected that the DOS government in Serbia will show an understanding of trade union interests. In the long run, it is clear that only united and strong trade unions will have great enough negotiating power to defend workers' interests successfully. This means that we must wait for there to be a change in the leadership of the largest state trade unions, a leadership which has been overburdened by its ideological inheritance, and which in its vanity is disinclined to work with the smaller, better organised, more modern unions.

Pensioner Associations: Pensioners are a second sub-group which have a relatively well-developed organisation, ready to defend their interests through various activities, even through demonstrations. What is important here are the limitations age imposes and their poor negotiating position, so one cannot expect them to have a great influence by themselves. It is interesting that here and there they have begun to unite with trade unions or associations of citizens who have been cheated out of their hard currency savings, in cases where they share mutual interests, in this way strengthening their negotiating position.

The largest and potentially most powerful group in this domain are doubtless the unemployed but, despite several attempts, they have not managed to get together to form a united organisation. However, this very dissatisfaction on the part of the unemployed sector of the population was the energy which bore the greatest number of DOS demonstrations and the democratic revolution of the 5th October when the Federal Parliament, state television, etc., were taken. For this very reason, DOS should bear in mind that that same mass energy of dissatisfaction could also turn against it, next time maybe led by Vojislav Šešelj or some other social demagogue or populist.

Slovenia

Borut Rončević
Junior Researcher
Faculty of Social Sciences
University of Ljubljana

December 2000

1	The development of the social situation	181
1.1	Slovenia in transition: a context	181
1.2	Developments on the labour market	185
1.3	Development of income and poverty	188
2	The reform of the social security system	190
2.1	Health policy and health insurance	190
2.2	Pensions schemes	193
2.3	Unemployment insurance	197
2.4	Other social protection schemes	198
3	Education and employment	201
3.1	Reform of the educational system and policies	201
3.2	Employment and labour market policies	205
4	Conclusion: implications for development	210

1 The development of the social situation

1.1 Slovenia in transition: a context

Slovenia is in many aspects a typical country in transition. In the beginning of the 1990s it faced the inevitable necessity to implement various reforms, if it was to become a prosperous country in the future. The system of social security was just one of the numerous segments of the society that required substantial reforms. Currently, Slovenia is meeting **challenges of double transition**:

Firstly this is the transition from socialist to post-socialist system, a broad process of institution building and institutional transformation. This is an unavoidable prerequisite for a complex undertaking of comprehensive development. The main purpose of this process is to correct (at least) the most obvious and harmful distortions of the past decades. This is a transition process specific to former communist countries.

Secondly, is the frame in Slovenia a part of the wider processes of transformation in the welfare states, caused by cataclysmic demographic trends, new organisation in the world economy, the rigidity of the welfare state and improper functioning of labour markets (Esping-Andersen, 1996). These issues have so far only entered the agenda of a group of better off countries, consisting of core European countries and 'advanced' transition countries (Redmond and Hutton, 2000: 11), with developed formalised systems of solidarity and intergenerational agreements, embodied in welfare institutions and mechanisms. An important proportion of the reforms in Slovenia is part of this second process.

As Stanovnik and Stropnik (2000: 154) put it, "*transition did not represent such a sharp discontinuity as it did in some other Central and East European Countries. Although Slovenia shares some of the common traits of the transition process (privatisation, creation of a multi-party political system, initial drop in production, increase in unemployment) the causality differs somewhat. Thus, the economic downturn, which occurred in 1991 following independence, was a consequence of the almost total rupture of trade with its important trading partners in the internal market, i.e. the republics of the former Yugoslav federation. This downturn was not a consequence of the transition process as such, though of course the transition process did contribute its share.*"

To fully grasp the implications of this somewhat provocative claim in the context of the current state of reforms of the system of social policy, one has to take into account not only the relatively high level of economic development (meaning simply that Slovenia can 'afford' relatively high social spending) but also the past developmental trajectories of this system. A system of social security, as it is understood and institutionalised in core European countries,¹ is not something new for Slovenia. Neither is the current wave of reforms and institution building something unprecedented. Additionally, these reforms have not started with the 'of-

¹ The author of this paper is fully aware of the tremendous differences between these systems. He is only referring to the most general traits of this system, as opposed to the basic traits of the statist social security system.

ficial' beginning of the transition. They are deeply rooted in the constant evolution of the system. The most recent reforms had effectively started in the early eighties, perhaps even earlier. (Svetlik et al, 1988; Kolarič and Svetlik, 1987; Ružica, 1987)

Evolution of the system. Previous institution building processes started soon after the Second World War. Interestingly, these processes that started five decades ago had basically the same purpose, to set up a social basis for the development of society. It was an answer to the rapid urbanisation and industrialisation of Yugoslavia, which led to the disintegration of traditional agrarian patterns of providing for one's needs through informal networks based on kinship and local community. This problem was initially due to ideological reasons not tackled by any social policy.² However, this soon led to burdening problems with meeting basic needs of a growing urban population (appropriate housing, health services, child care), which impeded the process of socialist development. Hence, legitimisation reasons led the state to assume responsibility already in the 1950s. A centralised, 'politocratic' system of social policy (Kolarič, 1991; Kolarič, 1992) was established, implying a rudimentary formally organised and centralised system of institutions, financed directly from the budget. At this point other forms of provision for social services were made illegal or entered the grey area of production, which is causing problems even today. But it was nevertheless an important step, marking the beginning of the development of a comprehensive and universal system of social security.

The evolution continued soon after the inception of the first policies. The productivity in the emerging industrial sector was growing slower than the costs of the provision of newly acquired rights and adopted programmes. Hence, politocratic types of policy immediately faced the problems of a widening gap between legally guaranteed rights and the ability of the state to provide for the realisation of these rights. The response of the state was to transfer the responsibility to others. This was implemented through two processes, 'financial deatatisation' and 'decentralisation' of social policy, which took place in the 1950s. **Financial deatatisation** was the first important step towards modernisation of the system of social security. A system of independent funds was formed. They were still filled with fiscal means, but the financial resources were allowed to be spent only on specific purposes. Decentralisation was important for the development of a more specific Slovenian social security system. Republics and companies were allowed – after universal rights were met – to expand their programmes, if there were enough resources available. Due to substantial differences in economic development of the Yugoslav republics, this also marked the beginning of differences in the system of social policy. Better off republics such as Slovenia and Croatia had some space for improvements to the existing system: professionalisation of the system of social services, modernisation of technologies used in the provision of rights, new methods of work, increasing the proportion of funds for education, housing, health care, etc.

2 Political measures aiming to solve social problems are, according to Marxist theory, needed only to solve problems deriving from past mistakes. Socialist society cannot produce social problems because the transformation of economic base shall itself lead to differences in the way of life and social relations. What used to be social problems will disappear with increasing productivity, because they will lead to equalising conditions of life. Therefore, social policy was in the first phase of planned industrialisation proclaimed superfluous (Kolarič, 1991: 580)

In the 1970s the **process of decentralisation** (as a part of a wide restructuring, i.e. the introduction of self-management) was extended to municipal and local levels. However, a great difference between what these self-managing units should have been (a unit of meso-policy making, bringing provider and users of social services closer) and what they really were (organisational frameworks which included both providers and users of services, enabling the control of both by the state) soon became obvious. These units were quite strictly controlled and were therefore not able to adapt to differences in needs in a variety of local environments. This consequently led to a strong aspiration to achieve **local self-sufficiency**. The institute of self-imposed contribution was used to build a dense network of schools, kindergartens, hospitals, old people's homes etc. Indeed, at least in Slovenia the supply of free or very cheap social services, provided by enterprises and dense networks of public institutions was at a relatively high level, even though the choice of services was poor. The individual's social security was high, with a low individual responsibility for it. Employment was high, but only because it was guaranteed. According to Svetlik's estimates, the conditions of this statist welfare system somewhat resembled a social-democratic (Esping-Andersen, 1990) type of welfare state, with certain deviations, of course (Svetlik, 1995: 103).

The period of sustained economic growth, which allowed the evolution of this system, ended for several reasons in the second half of the 1970s. The economic crisis deepened in the 1980s. This led to an '**increasing productivity gap**' (Gershuny, 1983). It was due to a legitimisation problem of the socialist system which made it impossible to cut rights and programmes, even though not enough financial resources were available for social transfers or social services. Institutions that were a part of dense networks could not count on rapid commercialisation of their services, because the purchasing power of the population was decreasing. There was no official strategy, no blueprint, how to deal with this crisis. Hence, public institutions spontaneously responded by adopting a combination of three strategies (Svetlik et al., 1988; Kolarič, 1991; Kolarič, 1994):

- First, a strategy of rationalisation, i.e. search for hidden reserves and resources, reducing costs by cutting wages, additional programmes, reducing the number of users, which led to reduced quality of services.
- Second, a strategy of commercialisation, i.e. attempts to diversify supply and to market services.
- Finally, but perhaps most important within the context of a shifting welfare system, strategy of externalisation. This meant that the public institutions opened their doors, attempting to include informal, voluntary potential in the production of services. (Svetlik et al., 1988; Kolarič, 1991; Kolarič, 1994) After the informal sphere, potential of the community and principles of informal solidarity having been 'lost' for decades, it was being brought back into the official welfare system, although in a somewhat hidden way.

Is shock therapy an answer? In the beginning of the 1990s, a dilemma entered public, political and academic debate, as it did in many other transitional countries. This dilemma was whether to implement shock therapy, as proposed by Jeffrey Sachs, the guru of this approach.

However, nowadays a question has to be asked: was this dilemma really a dilemma?³ From the Slovenian perspective probably not. There are several reasons that point to this conclusion. First, and perhaps the most important is the level of economic development. The economic crisis following the break-up of the socialist regime was severe, but not of the extent as initially assumed, even though the initial costs and problems were very high.⁴ Some of the companies had long-established relations with western companies, which proved to be an important advantage. Additionally, many flexible enterprises have successfully adapted to the loss of markets and reoriented quite successfully to home markets, which required more and more entrepreneurial effort and competitiveness due to opening and liberalisation policies. Constraints of the small home market also forced many of them to compete in the demanding markets of the EU. Indeed, many indicators point to the conclusion that the overall development of the Slovenian economy is closer to that of less developed members of the European Union such as Portugal or Greece than to that of other transition economies, especially when compared with those of south-eastern Europe.⁵ Hence, even external observers sometimes mention it as a specific 'affluent enclave' (Standing, 1996: 225).

It is also relevant, that it was not devastated by the war in the area of the former Yugoslavia, with armed conflict lasting only nine days in 1991. The problem of refugees, while being quite important (in terms of the costs) at the beginning of the armed conflicts in Croatia and Bosnia and Herzegovina has been much smaller compared to other countries. Slovenia is, unlike other countries in the region, neighbouring two developed countries Italy and Austria and two relatively well off transition countries, Hungary and Croatia. Therefore, the country was able to resist external pressures to implement shock therapy, meaning rapid privatisation and cuts in welfare spending. In the context of the specific Slovenian situation this was perhaps the only option if the reforms were to progress. Burdening social problems would, due to a strong dependency culture, inevitably impede processes of transformation. This happened in many other transition countries, where a shift to the left occurred in the second free elections. (Svetlik, 1995: 104)

This is why the **search for 'a new balance'** was (and still is) so difficult and important. At the same time, it is obvious that many reforms in this direction need to be implemented. Their main purpose should be to contribute to overall development, by upgrading the system so that it could serve the needs of social development – as a basis of sustainable competitive economy. This should be the main criterion in evaluating the current state of reforms in Slovenia.

3 Slovenia had prior experience with these types of reforms. Jeffrey Sachs was the economic adviser of the last Yugoslav Prime Minister Ante Marković, who implemented economic stabilisation reforms, which were in some aspects based on his proposals.

4 Some 40-50 % of Slovenia's markets were lost at the beginning (Ferfila, 1998). However, in the year 2000 its most important trading partners were Germany, Italy, Croatia, France and Austria (Economic Freedom 2001). Inflation was soon stabilised at one digit level. Slovenia was also one of the first transition economies to achieve economic growth with 2,9 % in 1993, averaging about 4 % since then.

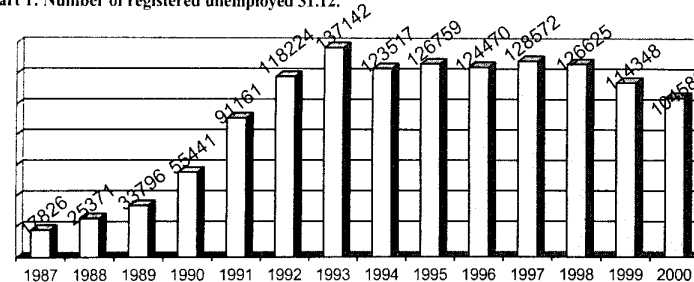
5 Its GDP is two to three times higher than in other post-socialist countries, very high even when we compare Slovenia with the Czech Republic, Poland or Hungary, which are usually considered to be among the most successful transition economies (OECD, 1997: 1).

In spite of a favourable position and a resistance to implement shock therapy the trends in interrelated areas of the labour market and the social situation were similar in all transition countries, albeit with huge differences in intensity (see Milanovic, 1998). These were increasing unemployment, poverty and inequality. We shall touch upon these issues in the following sections.

1.2 Developments on the labour market

On the labour market, three unfavourable trends have occurred in the 1990s that directly and indirectly impact the social situation. The first unfavourable trend is **increasing unemployment**. It is one of the most obvious consequences of strikingly mistaken allocation of labour within socialist systems, especially chronic underemployment.⁶ Growth in registered unemployment was especially rapid at the beginning of the nineties and peaked in 1993. Later it decreased slightly and has been rather stagnant since then. Only in 2000 has the aforementioned economic growth started to contribute to a reduction in unemployment. Prior to that, GDP increase was transformed into increase in productivity and did not significantly generate more jobs than were lost⁷ (NEO, 1998).

Chart 1: Number of registered unemployed 31.12.



Source: SORS, 2000: 242

6 It was caused by the fact that employment was not related to performance of the individual, company or the economy as a whole. It was constitutionally guaranteed as a "non-alienable right to work" (Constitution of SFRJ, article 13), even in the cases where redundancies would have been caused by technological progress. Slovenian macro-economist Mencinger estimated that the rate of hidden unemployment was as high as 13.5 percent in 1988 (Mencinger, 1989). In this respect the unemployment rate of around 14 % a decade later is not a relevant increase.

7 The first large decrease in registered unemployment after 1994 happened in 1999. However, most of this decrease should be attributed to administrative exercise. The number of unemployed has decreased by 12,277 this year. A substantial part of this reduction (10,296) was caused by reformulation of public works into a kind of temporary employment. Those working in public works were previously considered as unemployed, but not any more, even though their position in the labour market has not changed. Only a total of 1,981 can be attributed to other factors.

A second and strongly related trend is the steep **fall of the activity rates** and employment/population ratios.⁸ However, even though the fall in the activity rate was quite rapid, we can emphasise that at least for the female part of the population the activity rate continues to be among the highest in Europe. Only Scandinavian states Denmark, Sweden and Norway, with traditionally high rates of female participation in the labour market, have considerably higher female participation in the labour force. But it remains to be seen whether this is changing. Certain indications point to this trend, but it is too early to judge. The share of female unemployed as a percentage of all unemployed has increased since 1988, but they still constituted a little less than half of all those registered unemployed in 1998. In the year 1999, female share of all unemployed exceeded 50 % for the first time. (Ignjatović et al, 2000)

The third trend is a strong **segmentation of the labour market**. Most of the relevant changes in the structure of the registered unemployed are shown in Table 1. We can see that some groups have managed to improve their position in the labour market, especially the younger generations (under 26 years), whose percentage of the registered unemployed has decreased by almost one half. However, the situation has worsened considerably for some vulnerable groups, such as those above 40 years of age. Most of them have low or no qualifications (the percentage of semi-skilled or un-skilled workers is virtually the same).⁹ The occurrence of long-term unemployment has also increased. The long-term unemployed (those that have been without a job more than one year) constitute over sixty percent of all unemployed. Those that have been registered as unemployed for a very long period (more than three years) constitute over one quarter of all registered unemployed. Some ten years ago there was only about 9 percent of very long-term unemployed. The average waiting period for those registered unemployed was 30 months in 1999. This is only a four-month increase compared to 1998 (NEO, 1999) and a six-month increase from 1997.

These data show that the segmentation, which is following the dismantling of mechanisms which *"held the labour market in check"* (Orazem in Vodopivec, 1997:894) is quite similar to the capitalist part of Europe after the Second World War. (Hall, 1977: 213-225). Unlimited job security and egalitarian wage distribution are now commonly seen as past distortions, and empirical analysis shows that returns to education and experience are increasing. (Orazem in Vodopivec, 1997; see also Table 2) On one side, there is an important (growing) proportion of young and relatively well-educated people with considerably good employment opportunities, who are participating in the primary labour market with permanent employment contracts and relatively high wages. Only 1.8 % of all unemployed had a university education in 1999 (NEO, 1999). On the other side, we have an increasing number of older unskilled or semi-skilled workers, participating in the secondary labour market, who are more likely to be made

8 Factors that contributed to this were early retirement policy, layoffs, the closure of small private businesses, the ending of temporary employment contracts and a smaller number of new entrants into the labour market (as a consequence of the expansion and prolongation of education in younger generations).

9 It is actually lower than ten years ago, but this information does not indicate that the situation of semi-skilled and unskilled workers has improved. It is rather a reflection of the increase of unemployment in general where also a significant proportion of skilled workers are also made redundant or are seeking their first job. The aggregate cost and difficulties that NEO faces when trying to educate and employ these workers is still considerably higher than in the past – precisely due to the aforementioned rapid increase in the unemployed.

redundant, work for lower wages and have a temporary employment contract. And when they register as unemployed they are very likely to become long-term unemployed. However, the future development of this process is still unclear, especially the position of highly educated people in the labour market. Note that Slovenia is also in this respect quite different from other transition economies in the south-east of Europe, which are facing problems of unemployment for young and highly educated people (see Genov ed., 2000).¹⁰

Table 1: Structure of the registered unemployed

Year	Percentage of different categories in the total number of registered unemployed					
	Under 26 years of age	Over 40 years of age	First-time job-seekers	Long-term unemployed	Very long-term unemployed	Semi-skilled and unskilled
1988	51.9	14.5	28.7	36.9	n.a.	57.1
1990	51.4	16.1	26.5	37.4	8.9	49.8
1991	47.8	19.0	22.2	41.8	9.3	46.1
1993	37.4	28.2	19.0	54.8	14.4	45.3
1995	32.2	34.0	19.7	59.0	25.3	46.6
1997	29.1	43.0	18.3	59.6	25.0	47.1
1999	25.8	50.5	18.1	62.9	27.2*	47.5

*data for 1998

Source: SORS, 1995; SORS, 1999; NEO, 1999

Table 2: Individual return to education in terms of wage income*

Year	Level of education/professional skills							
	University degree	Non-university degree	Secondary professional degree	Lower professional degree	Highly skilled worker	Skilled worker	Semi-skilled worker	Unskilled worker
1966	274	212	164	129	186	136	111	100
1990	264	204	163	130	142	129	107	100
1992	290	205	167	133	145	132	108	100
1994	341	222	173	136	150	133	107	100
1996	354	227	177	130	148	130	104	100
1998	440	241	179	129	150	133	111	100

*Until 1993 average net earnings, since 1993 average gross earnings

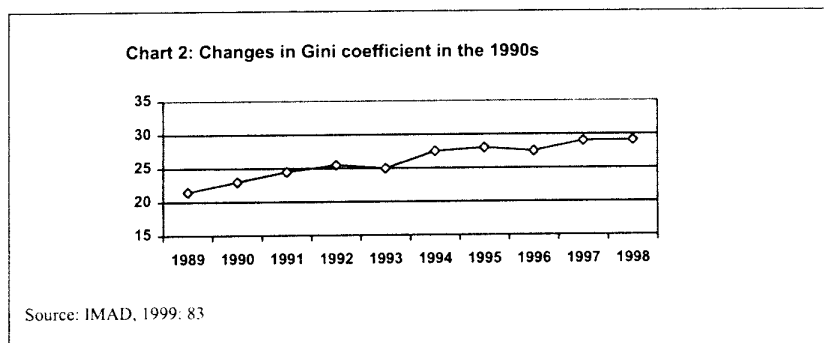
Source: SORS, 2000: 254

10 Only one part of the privileged position of young university graduates can be attributed to favourable economic trends. One must not forget that Slovenia is one of the countries that had to upgrade its administrative apparatus to perform all state functions. This was an employment opportunity for many young graduates. With the access to the European Union this enlargement is expected to continue to some extent, but not at the same pace. The burden of public spending is already too high. Their future prospects depend mainly on the ability of the economy to mobilise available human resources and shift towards more 'knowledgeable' ones.

1.3 Development of income and poverty

These changes contributed to increases in poverty and inequality rates, but even more to its perception. Public opinion surveys in 1998 showed that almost 90 % of respondents believed that the inequality is too great. Only 4 % believed this is not the case (SJM 98). The share of 'pessimists' had increased from 85 % in 1992. This small increase can be explained by an increase in income inequality throughout the 1990s. But it cannot explain such a large proportion of 'pessimists'. Rather, I can assume that this commonly shared opinion shows a big egalitarian potential of Slovene population. Comparative data from World Value Survey (1995) confirms this assumption. Slovenian population's **negative perception of inequality** is among the highest in the group of countries covered by this study. In the right circumstances this could be a strong developmental asset.

Hence, there is an interesting discrepancy between subjective perception and objective measures of income inequality in Slovenia. Chart 2 shows that inequality has increased in the 1990s. However, one must say that this increase has not been large, compared to some other transition countries. (Milanovic, 1998) Additionally, the same unfavourable trend has occurred in many of the EU countries.



Another unfavourable trend – **increasing poverty** – is also evident in Slovenia. The level of poverty, measured as the proportion of people with an income below 50 % of the median wage was at 14,1 % in 1995 and 14,9 % in 1996. Statistical analyses have shown that the anatomy of poverty has not changed considerably and is similar to that of developed countries. One-person households, single-breadwinner families and households without breadwinners are more likely to fall into poverty.

The **composition of incomes** has changed considerably since the early eighties. The most important shift has been a steep fall in income from primary employment and a **huge increase in social incomes** and family allowances. There are three reasons that contribute to this. The reason for the first change is the increase in unemployment and the reason for the second is an enlarged domain of the welfare state. Third and very important – and with far-reaching consequences – is the change in household composition, i.e. a huge increase in the number of retired. An interesting phenomenon is the relative improvement in the social situation of retired.

More detailed data show that prior to the 1990s they were mostly concentrated in lower deciles of the population. Nowadays, they are evenly distributed throughout all deciles, with the exception of the top decile.

However, pensions are not the only type of social income that is increasing in relevance. The importance of other types of social benefits is also increasing, compensating for radical cuts in consumer subsidies on various goods and services. However, regular employment remains to be the most important source of income for better off groups. The share of employees is continually rising from the lowest to the top income decile. (Stanovnik and Stropnik, 2000: 159). It is obvious why this employment remains the most desirable type. Even though the increase in income from secondary employment (part-time, contracts) happened in all deciles, among the poor it was the main income source.

Table 3: The structure of annual available money assets of households

	1983	1993	1999
Income from employment	69.8	55.1	58.8
Income from self-employment	6.3	8.6	7.0
Social income and family allowances	16.2	22.6	29.7
Property income	1.1	1.8	3.7
Other receipts	6.6	11.8	0.8
Available money assets	100	100	100

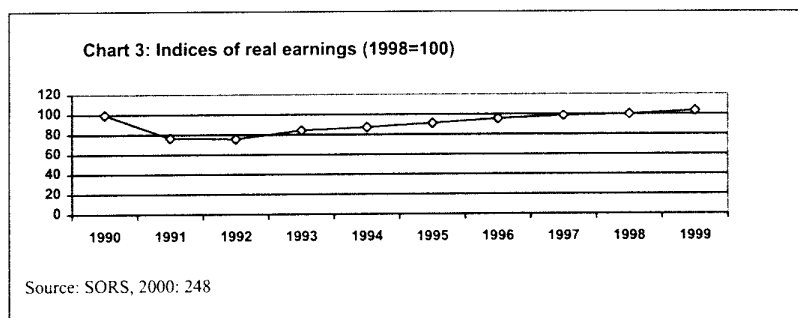
Source: Stanovnik and Stropnik, 2000: 157; SORS, 2000: 262

Table 3 also shows that a favourable economic situation can have an impact on the composition of income. For example, it shows that income from employment has started to increase as the economy has started to grow again. It is also important that income from other receipts has decreased. The majority of this income source in 1993 was savings withdrawal, a consequence of economic crisis. Property income (income from sales and rent of property) has also started to increase as a consequence of denationalisation processes.

A **decreasing share of income from employment** in the structure of available money assets is a highly unfavourable trend. Other transitional countries have had similar experiences. However, the increase in social transfer as a way of alleviating poverty and reducing inequality is a clever policy, if we understand it as a specific aspect of a multidimensional developmental approach. It undermines long-term developmental sustainability only if it is not accompanied by other appropriate measures. However, it is usually criticised for being expensive and Slovenia is in this respect not an exception. Segmentation of society would be much more critical without these transfers, which would – in the long run – undermine prospects for future growth and development. We can see the positive impacts in Table 4.

Table 4: Impact of social transfers on inequality		
Gini coefficient	1983	1993
Incomes including Social transfers	23,69	27,91
Incomes without Social transfers	24,87	30,48
Source: Stanovnik and Stropnik, 1998: 77		

To sum up, the increase in inequality is an empirical fact.¹¹ But it is important to note that this is not so much a consequence of severe and widespread poverty, even though there is an increase in poverty as well. Much of the increase in inequality can be attributed to the very large increase in return to education (see Table 2) and consequently an increase of incomes in the top deciles. Some concerns that this increase took place in the period of falling real wages were made obsolete by increases in real wages after 1992.



2 The reform of the social security system

2.1 Health policy and health insurance

The period after the Second World War has been, as already stated, a time of relatively high personal welfare and security. This is reflected in **high (growing) levels of health** and health-related social services, if we use several proxies as a measure. This period has been a time of increasing life expectancy, falling mortality and infant mortality rates. Several other indicators would also lead to this conclusion. Therefore, rapid changes in these main trends would be good indication of possible worsening of the situation (in health related with changes in health insurance consequently a loss of security). However, we cannot identify any rapid changes in the period after 1990. The trend of increasing life expectancy was reversed in the period

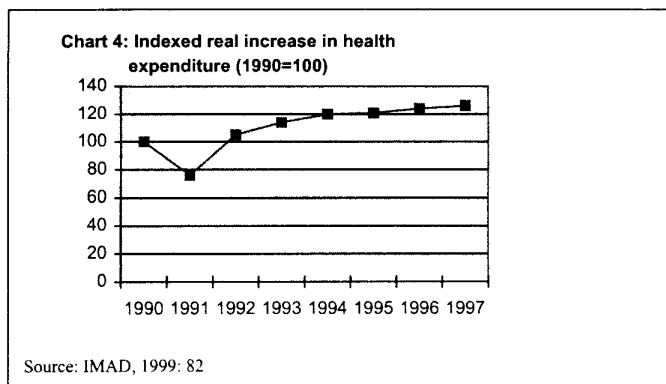
1990-1992, but the decrease was so minor that it would be more appropriate to speak of stagnation and not about decrease. After 1993, this trend started to improve again and today average life expectancy in Slovenia is above 74 years. The same thing happened with respect to a favourable trend in decreasing infant mortality. It had been decreasing quite rapidly, but the trend reversed in 1989 when infant mortality started to increase again. In the period 1989-1992, it increased from 8.0 to 8.8 per 1000. After that it started to decrease again. In 1996 infant mortality was (with 4,8 per 1000) one of the lowest in the world (IMAD, 1999: 77).

In addition to a relatively successful economic situation and high wages (only compared to other transition countries) the **system of health insurance** has also contributed to the country's well-being. There exists general access to health services, allowing equal opportunities for health protection. The health system has since 1992 been based on two 'pillars', compulsory and voluntary health insurance. Compulsory health insurance includes all citizens of Slovenia and those individuals with permanent residence in Slovenia. This part of health insurance assures access to health services and sickness benefit for the period when an individual cannot work. This 'pillar' provides the following services:

- prevention activities, diagnostics, health and rehabilitation of children;
- family planning counselling, contraception, pregnancy;
- preventive activity for the adult;
- treatment of contagious diseases, cancer, haemophilia, paralysis, epilepsy, mental illness, occupational disease and injuries, diabetes, multiple sclerosis and psoriasis;
- paramedic;
- sick leave and travelling costs related to health treatment.

Health related public expenditure, measured both as a percentage of GDP and in real terms, has decreased substantially in 1991. The year of 1991 was generally the year of severe crisis, when GDP decreased by 8.9 %. The relative amount of resources available for health and health policies decreased substantially, from 5.4 to 5.0 % of GDP. During the next year the relative amount increased substantially to 7.1 % of GDP and to 7.3 % of GDP in 1993. Since then the relative amount has slowly decreased to 6.5 % in 1997. (IMAD, 1999: 82) However, the increase in real terms has been continuous since 1991. Chart 4 shows this indexed real increase.

¹¹ However, recent calculations from Household Expenditure Survey present a different picture. Levels of poverty and inequality (defined in monetary terms) have decreased in the period 1993-1998, even though wage differences have increased in the same period. (IMAD, 2000) This is a consequence of increasing pensions and social spending.



The situation in the health care system has not been perfect in the past decades in spite of big density and cheap services. Unfortunately, the nature of the monopoly of the state sector was such that it did not enable full exploitation of possible benefits (Boh, 1992: 85). Such benefits included good overview, development, production and distribution of services within national and regional programmes, the shaping of universal programmes of high quality for broad clientele, providing feeling of social security and social integration, improving the situation of unprivileged citizens with specially designed programmes (Johnson, 1987; Mishra, 1981; Rus, 1990). The most noticeable weaknesses of the system were the bureaucratic administrative apparatus and the lack of appropriate incentives towards efficiency. In addition, medical staff were poorly paid. Therefore, even though aforementioned proxies show a generally positive health situation of the Slovenian population, there was much on the agenda in the beginning of the 1990s. Many far-reaching changes have been and are still being introduced in Slovenia.

Privatisation has been an important issue in the provision of health services since the beginning of the transition. According to legal regulation it can develop in two directions, as quasi-privatisation (the right to use) and as real privatisation. However, current trends point to the possibility that quasi-privatisation has been and will continue to be the main form. (Čerňič Istenič, 1997: 17) Public infrastructure and provision of services will remain the backbone of the system. However, there are numerous inconsistencies, uncertainties and disputes in the way this process is developing. Most of this is a consequence of insufficient and unclear regulation regarding the relationship of private and public provision.¹² It should be noted that to some extent privatisation has been the legalisation of activities that took place in illegal (but

¹² The competition clause, which would prohibit simultaneous employment in public and private spheres has been a big issue since the beginning of this process. This would indeed cripple the process of privatisation, since access to (expensive) equipment is one of the conditions to get a concession. On the other hand, this clause would have several positive. A compromise was made to allow private provision in public institutions, but this was insufficiently regulated, especially the financial aspects of renting the equipment and dispensing.

tolerated) areas of private production of health services in the 1980s. One indication of that is the fact that most of the privately/illegally provided services in the 1980s were dental services. Nowadays dental services provide the majority of privately provided services. Almost half (48 %) of all contracts of the Institute of Health Insurance of Slovenia with private contractors were in the field of dentist services in 1996 (Čerňič Istenič, 1997: 18).

It is not an easy task to evaluate the extent of privatisation of health services and insurance in Slovenia. We can try first by looking at some statistical indicators. Note the fact that the number of contracts with private providers exceeded the number of public already by 1994. These are mostly small entrepreneurs, offering one type of service. Public institutions are mostly big institutions, offering a comprehensive set of services. The real picture is evident from Table 5, which shows us that the proportion of private financial resources is increasing, but still represents a substantially smaller share than public funds.

Table 5: Ratio public/private financial resources

	1992	1993	1994	1995	1996
Public funds	98,3	93,1	90,9	89,4	88,6
Private funds	1,7	6,9	9,1	10,6	11,4

Source: Business report of Institute of Health Insurance of Slovenia, 1996: 77

It is even more difficult to assess the consequences of the current process of privatisation. This privatisation has not been strategically steered and no clear blueprint or officially binding programming document existed. Its primary purpose should be the introduction of competition and increased efficiency. However, considering a dispersed, but at the same time comprehensive network of public institutions, this is not easy to achieve. It is sometimes noted that going to a private provider is just a way to buy one's time, i.e. to avoid waiting lists in front of public dispensaries. Most Slovenian settlements are small and it is only viable to have one provider of health services. Indeed, it is sometimes estimated that the actual damage of this 'silent' privatisation has surpassed the extent of privatisation itself. (IMAD, 1999: 80) It is difficult to say whether these reforms have really tackled the biggest problems of the health care system.

2.2 Pensions schemes

The pension system, which was inherited after the disintegration of Yugoslavia, was introduced decades ago, when social, economic and demographic situations were different. It operated on a pay-as-you-go basis. However, like in the rest of Europe things have changed. It became more or less obvious that it would not be possible to sustain this system because of negative demographic trends.

Additionally, the pension system in Slovenia had to take over some of the burdens of the transition period. Most notably, it was used as a mechanism to reduce unemployment levels. Policy makers were quite unprepared for the unprecedented situation of rapid unemployment growth, even though there were strong indications that after fundamental reforms of the labour market and economic sector as a whole this was going to happen. The first response to

this puzzle was to introduce a policy of **early retirement**, following the example of developed European countries such as Germany. The government actively promoted early retirement by reimbursing part of the costs related to the purchase of retirement credits needed for early retirement. This policy was not sustainable in the long run. It is inevitably causing similar problems as in affluent welfare states of western Europe: growing number of retired persons, increased public expenditures, reduced labour market activity etc. (Esping-Andersen, 1996). Slovenia's expenditure on pensions has been among the highest in transitional economies (Vodopivec, 1996:24).

In addition to early retirement programmes, the number of **regular retirements** increased simultaneously. Due to restructuring of enterprises, managers had to look for all possible ways of reducing their number of employees. Many workers, who would previously continue to work after fulfilling regular retirement requirements (age and working record), were 'forced' to retire. But it soon became obvious that this policy was unsustainable and the programme of early retirement was soon reduced and terminated in 1993. Since then growth in the number of pensioners has been much more modest, but this did not reduce the effects of previous policies. Table 6 shows the effects of early transition policies and demographic difficulties on the number of pensioners. The increase in the number of pensioners has been rapid indeed. The **ratio between insured and retired** has changed from 3:1 in 1984 to 1.7:1 in 1993, and remained rather stagnant since. This increase has taken place in all categories. However, old-age pensions definitely account for a majority of this increase, while the growth in the number of disability and survivors pensions has been much more modest and would not itself impact viably on the pension system as much.

Table 6: Receivers of pensions – annual average

	1990	1991	1992	1993	1994	1995	1997	1999
TOTAL	356274	398252	425612	437748	440525	444643	456160	467408
Old-age	197259	230696	252546	260396	261777	263669	271072	280193
Disability	82289	87918	92440	95075	96079	97257	98545	98493
Survivors'	76726	79638	80626	82277	82669	83699	86543	88722

Source: Statistical yearbook, 1995: 156; Statistical Yearbook, 2000: 204

A need for a thorough reform of the pension system in Slovenia was obvious. However, it took a decade to formulate and start the implementation of the **reform**. The authorities started to implement new laws on pension and disability insurance only at the beginning of 2000. Many domestic and foreign experts took part in formulating the new system, as did political parties, social partners, civil society on other pressure groups. This had strong effects on the formulation and implementation of the reform, but also on the fact that the reform was watered down.

After the reform, several pension schemes now exist in Slovenia. The most important one is the **old-age pension**, which has been revised in most of its main features. Note that the transformation is **gradual**, which means that some of the changes, such as new age criteria, will be fully implemented only in the second decade of the new century. Only the most important changes are presented in Table 7 below.

Table 7: Some of the most important changes to old-age pensions

Main changes	Reformed arrangement	Pre-reform arrangement
Increase in retirement age and contribution period Smaller difference between male and female	To retire one has to fulfil both age and contribution period criteria 1. 40 years of contribution period for male and 38 for female (full contribution period) - Minimum retirement age 58 (male and female) - Maximum retirement age 63 (male) and 61 (female) 2. At least 20 years of contribution period, but less than 40 (male) or 38 (female) - maximum retirement age 63 (male) or 61 (female) 3. At least 15 years of contribution period but less than 20 years - retirement age 65 or more (male) and 63 or more (female)	1. 40 years of contribution period for male and 35 for female (full contribution period) - retirement age 58 or above (male) and 53 or above (female) 2. At least 20 years of contribution period, but less than 40 (male) or 35 (female) - retirement age 63 or above (male) and 61 or above (female) 3. At least 15 years of contribution period but less than 20 years - retirement age 65 or more (male) and 61 or more (female)
Increase and reduction of pension	Pension can in case of activity of person permanently allot - after age of 63 (male) or 61 (female) - before that age if individual achieves full contribution period before that age Pension is permanently reduced in case of sufficient contribution period, if it is below 40 (male) or 38 years (female) at the age of 63 (male) or 61 (female)	Pension is permanently increased for 1 % per year of contribution period if he/she remains active after fulfilling conditions of maximum retirement age and full contribution period Pension is permanently reduced 1 % per year of contribution period (but not more than 5 %) in case of retirement before the age condition
Impact of child care	Reduction of period for which pension is reduced.	No impact, without special regulation
Contribution period before age of 18	This can reduce age criteria (for female only), but not more than to 55 years	No impact, without special regulation
Special regulations from other laws and regulation	No regulation can reduce age criteria below the age of 55. In cases when contribution period is achieved before that age, person receives a special occupational pension (new type of pension with special fund)	Some regulation could reduce age criteria below the age of 50
Reduction of ratio between highest and lowest pension for full contribution period	This ratio is reduced to 1:4	This ratio is set to 1:4.8

Adopted from IMAD 1999: 100

The **disability pension** is another type that has been thoroughly revised. In the pre-reform system the rights were permanent. The system was not directed towards reactivation of the disabled or to encourage them to acquire different skills and use their remaining ability to work. Reformed arrangements allow for separation between different types of disability:

- general disability, when the insured person cannot perform any type of organised work any more,
- occupational disability, when the insured person cannot perform his/her occupation any more because his/her ability to do so has decreased by 50 % or more, and
- reduced or limited working ability, when the insured person can get disability pension in the case of reduced (having lost less than 50 % of the ability to perform his/her occupation) or limited working capability (person above the age of 63 for male or 61 for female cannot work full-time, but is able to work part-time).

A completely new right that has been introduced within the reform concerns the state pension. Eligible are those with permanent residence in Slovenia, who are at least 65 years old and have lived in Slovenia for at least 30 years between the age of 15 and 65. An additional condition is that the person does not receive any other type of pension in Slovenia or from public pension systems abroad, and that this person's own incomes do not exceed that specified level which still enables eligibility for income supplement. A state pension amounts to 33.3 % of the lowest pension basis.

The pension amount for the same working record is also being reduced gradually. Especially younger generations will have to provide for the loss of future income by joining one of the various **voluntary pension schemes** that were introduced with the reform. Various voluntary pension schemes are possible as an additional option. Additional pension insurance can operate as group insurance and can be agreed between employers and employees. In certain cases (difficult work or unhealthy working conditions) this additional insurance, which is paid by the employer, is mandatory. These arrangements closely resemble the 'second pillar' of the World Bank classification. New legislation also promotes 'third pillar'. Voluntary additional insurance is tax-deductible. Insurance is performed by financial institutions, but these activities are regulated by the state.

Calculations have shown that the introduction of the new pension system has already contributed to some savings. However, the reform did not manage to solve all the systemic problems of the pension system. Therefore the savings are not real savings. We can describe them as a reduction in losses of the Institute for pension and disability insurance, which has to be covered by the state budget or by increasing indebtedness of the Institute. This is why it is reasonable to expect repetitive and burdening **problems with financing**. Hence, the media often describe the reform as an unfinished project. One of the biggest problems is that pensioners represent a very strong interest group. The Democratic Party of Pensioners (DeSUS) has been in parliament and a member of the ruling coalition from 1996 to 2000. After elections in October 2000 they entered this coalition again. This explains the aforementioned move of pensioners towards higher deciles. The new pension legislation has undergone its first minor revision only one year after it was introduced. But many claim that this was only a 'cosmetic' revision due only to the influence of pensioners.

2.3 Unemployment insurance

The unemployment insurance scheme, which can be applied in the case of unemployment, has been operating since 1974. It is mandatory for all full or part-time (at least 20 hours per week) employed workers, who have signed an employment contract, and voluntary for the self-employed. They get either unemployment benefit or unemployment assistance, which are both co-financed by the insured and employers.¹³

Unemployment benefit is related to previous earnings of the insured person and the amount and duration of the unemployment benefit depends on that person's previous income and period of contribution into the insurance fund. The benefit amounts to 70 % of average monthly wage in the last year prior to unemployment in the first three months of the unemployment and 60 % after this period. This amount may not be lower than the guaranteed minimum income (reduced for taxes and contributions) and not higher than three times the lowest benefit. Therefore, the ratio of lowest to highest possible benefit is 1:3.

Working insurance record	Age	Maximum duration of unemployment benefit
Less than 1 year	No impact	No unemployment benefit
1 to 5 years	No impact	3 months
5 to 15 years	No impact	6 months
15 to 25 years	No impact	9 months
Over 25 years	No impact	12 months
Over 25 years	Over the age of 50	18 months
Over 25 years	Over the age of 55	24 months

After they are no longer eligible for unemployment benefit the unemployed can get **unemployment assistance**. This is a means-tested benefit. Unemployed without working and contribution records – and therefore not eligible for unemployment benefit – can also get this type of assistance, because it is designed to work as a protection against deprivation, even though it operates within the unemployment protection scheme. Unemployment assistance can be received up to 15 months. However, the amount of unemployment assistance is not related to one's previous earnings. It is a flat-rate benefit, amounting to 80 % of guaranteed minimum income. Only those who need less than three years to reach retirement age are eligible for an extension. The unemployment insurance scheme also gives the insured person the right to participate in active labour market programmes as well as the rights to pension, disability and health insurance.

Needless to say, the growing number of the unemployed have also caused considerable pressures on the budget. Therefore, the terms of eligibility were set higher and the time allowed

13 These contributions cover only a small fraction of necessary resources for cash benefits for the unemployed. In 1997 it covered only 9.2 % (Ignjatović et al, 1997: 18). The rest is covered by the state budget.

for receiving certain benefit has decreased. The Unemployment Insurance Act, which defines these schemes, has been revised and amended several times since 1991. These amendments have usually made **eligibility requirements** stricter, thereby limiting the proportion of eligible unemployed. However, we can notice an important feature. The number of persons receiving unemployment benefit has not changed, even though there is a certain reduction in the proportion of unemployed receiving this benefit. Note that unemployment benefit is a *right* of the unemployed. On the other hand, the number of recipients of unemployment assistance has actually decreased both in absolute and even more in relative terms.

Table 9: Recipients of unemployment benefit and assistance in the 1990s

Year	Recipients of unemployment benefit (31.12.)	Recipients of unemployment assistance (31.12.)	Recipients of unemployment benefit as a % of reg. unemployed	Recipients of unemployment assistance as a % of reg. unemployed	Recipients of both benefits as % of reg. unemployment
1991	31,818	14,110	34,9	15,5	50,4
1992	32,533	18,229	27,5	15,4	42,9
1993	42,582	20,052	31,0	14,6	45,6
1994	31,452	11,036	25,5	8,9	34,4
1995	28,305	5,936	22,3	4,7	27,0
1996	33,715	4,112	27,1	3,3	30,4
1997	37,152	3,734	28,9	2,9	31,8
1998	36,082	2,818	28,5	2,2	30,7

Data from NEO, 1999: 80 and Statistical Yearbook 2000 (own calculations)

Besides the unemployment insurance scheme the unemployed may also receive other types of social assistance, which is non-contributory in nature. But these arrangements are not geared specifically towards the unemployed, even though they constitute the majority of beneficiaries.

2.4 Other social protection schemes

General social assistance: This social security scheme is a general social assistance scheme, as defined in the Law on Social Protection in 1992. It can take two forms, as financial assistance and as benefit in-kind (social service). These are, of course, means-tested benefits.

Two types of **financial assistance** are defined in the general social security scheme. The first is cash assistance to the beneficiary, defined as cash assistance a single source of livelihood. Persons who are permanently incapable of work and those over the age of 60, who do not have other sources of survival, are eligible for this benefit. The amount of this benefit is 60 % of guaranteed income, which can additionally increase by 30 % if a person needs care and for the size of rent in non-profit apartments. Once a year he/she can get additional assistance (a monthly sum of money) for functional needs (heating, clothing, etc.) The second is income support, which is required by a person who cannot provide for his/her needs or the needs of other family members due to reasons over which he/she has no control. The gross guaranteed

minimum income per family member serves as a basis for calculating income conditions for the acquisition of income support. The level of income is defined differentially so that family structure is taken into account (52 % of this basis for the adult, 42 % for children over 15 years of age, 34 % for children from 7 to 14 years of age and 29 % of this basis for children up to 6 years of age). The duration is unlimited, but eligibility and the amount of the assistance is re-examined every six months.¹⁴

As expected, only the most vulnerable groups within the population are recipients of these financial assistance schemes. For example, two thirds of recipients of **income support** in 1997 lived in a single-person household and an additional 15 % are from single parent households. Only 15 % of recipients live in two-parent families with children. There are no specific gender differences, but there are several other factors that affect the likelihood of qualifying as a recipient. Education, for example, is a strong determinant. 54,6 % of recipients had only primary education or less. The correlation between levels of education and the receipt of income support was highly significant. Coefficient was -0.83. 81.5 % of recipients were unemployed (MDDSZ, 1999: 23).

Table 10: Trends in general social security's financial assistance

Year	Average monthly number of recipients of cash assistance as a single source of livelihood	Index 1994=100	Chain index of real amount	Average monthly number of income support recipients	Index 1990=100	Chain index of real amount
1990	1893	110,8	-	5100	24,4	
1994	1709	100,0	89,5	20914	100,0	109,2
1995	1558	91,2	98,4	24908	119,1	109,9
1996	1494	87,4	98,0	29988	143,4	102,8
1997	1404	82,2	97,7	34242	163,7	101,3
1998	1334	78,1	98,0	33017	157,9	96,8
1999	1230	72,0	-	31966	152,8	

Source: SORS, 2000: 209, own calculations

There are a **number of problems** with the inclusion of financial assistance within the general social assistance scheme. Three are most often stated as the most obvious (Ignjatović et al, 2000: 23):

- (1) The absence of supplementary primary conditions for eligible persons capable of work. The Law on Social Protection only defines the possibility and not the obligation of the National Employment Office to agree with the eligible person on actively solving his/her problems.

¹⁴ There is also a third, less important assistance, *single income support*. This is a new, one-time financial assistance to persons eligible to it. Its purpose is to bridge current financial difficulties, irrespective of conditions defined for income support. The number of recipients is increasing (from 326 in 1994 to 1636 in 1999).

- (2) There is a discrepancy between the funding source and social-work centres allocating cash allowances and supplements to eligible persons on the basis of discrete decision-making, which enables too generous decisions.
- (3) However, the authorities have already started to deal with these issues. Namely, recipients of income supplement are positively discriminated against active labour market policies. Figures in Table 10 show the positive effects of this approach. The number of recipients increased rapidly until 1997. In 1998 it started to decrease slightly and this trend continued in 1999. 1998 was also the first year after 1994 that the real value of income support increased, thereby pointing to a shift in policy. This discrete decision-making procedure also leads to unequal treatment of eligible persons.

Measures of the state to assist families with children were originally constituted as a part of policy to promote reproductive rates. A long-term trend of decreasing reproduction started at the end of the 19th century but at the beginning of the 1980s they had fallen to rates that were not sufficient for positive population growth. After the break-up with the former Yugoslavia, migration flows from other parts of Yugoslavia also stopped. Therefore, family policy in Slovenia is inherently aiming at developmental goals by pursuing demographic and social goals. Two main mechanisms for **family policy** operate in Slovenia: 1) child benefits and 2) child-related tax savings.

The most common type of family benefit is **maternity leave compensation**. Every mother, who is employed (and therefore insured) has the right to this benefit. This benefit amounts to 100 % of her base wage. The father is also allowed to use this benefit, if he decides to use parental leave instead of the mother. Any person adopting the child is also eligible. This benefit is also paid to parent who is absent from his workplace for a longer period due to child-care. Any parent, who is not insured or does not have some other salary compensation, has the right to **parental allowance at and after childbirth**. This benefit amounts to 52 % of guaranteed monthly wage. These two benefits depend mostly on reproductive rates and the unemployment of younger adults, and the trends in the take-up of these two benefits (a decrease in maternity leave compensation and an increase in parental allowance) do not come as a surprise.

Child allowance is another important family benefit. Its purpose is to reimburse some of the income that is spent on children and to reduce inequalities between families with or without children. This benefit has been subject to several revisions. From 1 January to 31 April 1994 children were eligible whose parent's income per family member did not exceed 43 % of average income in Slovenia. After 1 May 1994 this was amended and child allowance depended on income per family member. Eight income classes were therefore established. The amount of benefit was additionally adjusted so that it depended on the number of children, increasing with every child and remaining stable after the third child. Since 1994, the number of recipients has increased as it has been easier to meet the requirements, but the amount of benefit is still small for most of the recipients. **Assistance for goods for a new-born child** is a single assistance at childbirth amounting between 25,000 and 30,000 SIT (approximately DM 250). (MDDSZ, 1999: 17). **Allowance for nursing a child** is a benefit designed specifically for parents of physically or mentally handicapped children. This allowance was introduced on 1 May 1996. Its purpose is to assume part of the responsibility for increased financial costs re-

lated to the child's disability. It is payable until the child is 18 years old, if he/she lives with his/her parents. After the law there was an amendment that this benefit could be extended in those cases when the handicapped person is in the process of education. This benefit amounts to 30 % of guaranteed wage. There are also some other (especially tax-related) benefits.

Research has shown that **child-related tax savings** are less important than child benefits, as is usually the case when both mechanisms exist. Nevertheless, in a study of 21 OECD countries, based on several model families,¹⁵ showed that in Croatia and Slovenia they are important as well. (Stropnik, 1999) But there are important differences related to the type of the family and its income position. Child benefits are far more important in vulnerable families, where the ratio between child benefits and child-related tax savings was 71.6: 28.4 in 1997. Tax savings gain in relevance in better off families. The comparable ratio was 55.8: 44.2. (Ibidem)

Child benefits and tax-savings constitute an important proportion of disposable family income. Their share of total disposable family income for the most vulnerable model family was 28.5 %, which is second only to Norway and Denmark. In better off families this proportion fell to 17.2 %, but it was still the highest proportion among all countries. (Stropnik, 1999: 16-17)

3 Education and employment

3.1 Reform of the educational system and policies

Education is considered to be one of the most important mechanisms for social and political control in the socialist system. For a long time it was also perceived as a very important factor in the development of Yugoslav society. However, during the 1970s this attitude changed and more importance was given to 'productive work' (Svetlik, 1993: 201). As a consequence of this ideological shift and amidst a deepening economic crisis the amount of resources available for education started to fall. It fell to only 3 % of GDP. This resulted in problems with drop-out rates, poor enrolment ratios, disintegration of the system for adult education, leaving an educational structure that did not meet the demands of a modern economy.

Since the beginning of the 1990s, education has been seen again as an important factor of development. Slovenia inherited the consequences of **past mistaken education policy**. In the middle of the 1990s its educational structure was very poor compared to other EU countries and was insufficient to meet the demands of a knowledge-based economy. This is not too surprising considering the fact that the number of graduates from higher professional institutions, faculties and academies of art per year has increased from 1792 in 1975/76 to only 2368 in 1989/90. Over the next ten years this number more than doubled to 5830 graduates (data from SORS, 2000: 125).

15 These models are: 1. single person earning 67 % of average production worker earnings (APW), 2. single person with two children earning 67 % of the APW earnings, 3. a couple earning 133 % of the APW earnings and 4. a couple with two children earning 133 % of APW earnings. (Stropnik, 1999: 2) Children are aged between 5 and 12 years.

Table 11: Share of population (age 25-64) with completed secondary and tertiary education in 1997

Country	Secondary education	Tertiary education
France	43 %	19 %
Germany	58 %	23 %
Netherlands	42 %	24 %
Sweden	49 %	28 %
United Kingdom	32 %	23 %
USA (1989)	46 %	36 %
Slovenia	25 %	13 %

Source: ACS, 1998: 117

Investment in education started to increase rapidly in the 1990s and it reached almost 6 % of GDP by the middle of the 1990s, which equals or surpasses that of many developed EU countries. Many indicators show positive developments. The number of tertiary students has increased from approximately 30,000 in 1989/90 to over 77,000 in 1999/00 (SORS, 2000: 125). The combined enrolment ratio of all three levels of education increased from 76.7 in 1992 to 82.0 in 1997 (IMAD, 1999: 17), improving Slovenia's ranking from 29th to 21st in the world. The enrolment rate is especially high up to 17 years of age. However, after that it falls rapidly, which remains one of the biggest problems on the agenda. This is going to have an important negative impact in the following decades and is one of the priorities in the area of education policy.

The **reform of the education system** was one of the more publicly discussed issues, especially the introduction of nine-year primary school education which replaced the previous eight years, and the possibility of introduction of religious education, which is strongly demanded by the Catholic church. It also demands patronage over this course. The introduction of a new secular course Religions and Ethics has (so far) resolved the issue. (Svetlik and Barle Lakota, 2000) However, this reform was much wider and went deeper and has many more relevant dimensions: the reformulation of some schools, education, curricular reform, issues of privatisation. The changes to the formal organisational structure were officially adopted in 1996. They happened at all three levels. As aforementioned, nine-year primary school education was introduced and a dual system introduced to the secondary level.¹⁶ At the tertiary level two-year non-university colleges were abolished and replaced with four-year professional higher institutions. A special hybrid form of post-secondary vocational education was also introduced. Other changes aside, the common trait of these reforms is to extend the duration of education.

16 The first is a group of upper secondary schools. Their purpose is to give students a general education, which would enable them to enter university. The second is a group of vocational and professional education. Formal education is less encompassing than in upper secondary schools and does not enable students to enter university, unless he/she decides to pass additional examinations (White book on Education, 1995).

More relevant were the curricular changes at all levels. These were changes in the content and methods of education (Svetlik and Barle Lakota, 2000). This was a big project, steered by the National Curriculum Commission. The process of setting up a new curriculum was such that it included a large number of experts (more than 500) and teachers/practitioners (20 % of all teachers teaching a specific subject had the opportunity to participate). Several aims and principles were focussed on in this reform, many of them geared towards the needs of competitiveness. However, time will show whether this reform is in tune with global strategic demands and its effects. It is too early to judge.

Privatisation and financing of education: Private schools have never been common in Slovenia.¹⁷ The only exception after 1945 were two catholic grammar schools and a Faculty of Divinity, which were considered to be schools for priests and not a part of the official system. In 1991 it was again allowed to set up private schools and kindergartens. However, we have not witnessed a major trend in setting up new schools, especially in the first two levels of education. Many critics believe that this is a consequence of strict but at the same time ill-defined regulations (Piciga, 1997). The most notable exception is at tertiary level, but only a fraction of the entire student's population is enrolled in these (small) schools.

However, if we define privatisation more broadly to include the transfer of financial responsibility for one's education from the state to one's family and oneself, then we are witnessing widespread privatisation processes. This is taking the form of an increasing proportion of students who have to pay fees. Public education at tertiary level is free in Slovenia. The only exception is part-time education. In the face of increasing demand for tertiary education universities are taking advantage of this type of arrangement and expanding the range of part-time education, while not expanding their regular enrolment. Part-time studies were originally created to help those working to re-enter formal education.

Nowadays, most part-time students are young people who do not manage to enter regular studies due to competition and high requirements (in terms of academic merit). The ratio of regular to part-time students has changed from 5:1 in 1990/91 to 2:1 in 1999/00 (SORS, 2000: 129, own calculations). This trend should be a concern because the growth in student population is surpassing the growth in university teachers. We can assume that it is impacting the quality of education, even though an official study of negative impact has not been presented yet. However, these criticisms have been publicly stated even from university lecturers.

Another aspect of privatisation is the issue of **scholarships**. They are an important part of education policy in Slovenia. Several types of scholarships exist: company sponsorships, national scholarships, Zois scholarships and some less important types of scholarships. Company sponsorships were the most important type of scholarships before the transition. They should have remained important if scholarships were to have played a role in human resource policy in Slovenian companies. However, this has not been the case. The number of company

17 In the Habsburg Empire private schools constituted only 6 % of all schools. The conditions to set them up were strict and they were not co-financed by the school. The Kingdom of Yugoslavia abolished the right to set up new private schools in 1929 (Piciga, 1997: 12). Therefore, the communist attitude against private schools is not a sharp discontinuity.

sponsorships has decreased from 44,000 in year 1987/88 to 11,000 in 1993/94 and to 2,600 in 1998/99. Other types of scholarships have replaced them. The most important type of scholarships is national scholarships. Eligibility is subject to means-testing and is related to the average income of the recipient's family (130 % of guaranteed income or less per family member since 1998). The problem with these scholarships is that they do not allow following market-based criteria. The purpose is different: to enable access to education for all groups of people and thereby to alleviate inequality and exclusion. We are also witnessing an increase in the number of Zois scholarships. This is a state-funded scholarship for especially talented students. The number has increased from 6,581 in 1993/94 to 10,185 in 1999/2000.

At the beginning of academic year 1999/2000 a new type of funding was introduced, aiming to transfer some of the responsibility from the state or student's families to students themselves. This is financing by loan. Students get a loan from a commercial bank, i.e. a certain amount of money each month (approximately the amount of an average scholarship). However, this is not a typical commercial loan because the state subsidises a certain amount of the interest. The amount of the subsidy depends on the student's study success, measured by his average grade. It is possible to achieve a grade-point-average which leads to the state subsidising all of his/her interests. There is a one-year payment moratorium after the student's graduation, which is supposed to give him enough time to find a job.¹⁸

Continuous learning: One of the key problems of the Slovenian education policy is adult education. Slovenian educational policies are oriented towards younger generations and towards formal systems of education. Not enough focus is placed on life-long learning and the continuous upgrading of human capital. In 1992 the expenditure on education of the adult population amounted only to 0.05 % of GDP, increasing to 0.08 % of GDP in 1995. This proportion was much higher in most of the more developed countries (1 % in Denmark, 0.7-0.8 % in Sweden, and United Kingdom, 0.3-0.5 % in Canada, Finland, Norway, Japan and Belgium; data from ACS, 1998). In the present circumstances the adult population sees education as a part of their personal promotion, not as an enhancement of quality of life; if the latter were true, it would to a greater extent impact an individual's decision to participate in some form of continuing education.

The development of a favourable environment for **adult education** will have to be one of the most important strategic priorities of the state. It should approach this by strengthening and upgrading the already existing network of institutions of informal public education, and to encourage people to educate themselves, following the example of developed societies that have established strong networks for informal education. Otherwise it will be difficult to substantially improve the poor situation that is obvious from the table below. Recent experience with 'study circles' has shown that there is an interest among adults to participate in this type

¹⁸ However, this attempt has been heavily criticised from the side of student's organisations for inappropriate terms of payment. It has very soon failed completely due to a lack of interest from the side of the students. This is pointing either to sufficient resources from other sources or still too high interest rates and too short payment period. Or both, which is most likely the case. We can probably estimate that monetary poverty does not affect the ability of the young people to educate themselves, which is – in addition to relatively favourable situation – enabled by subsidised food for students, various types of cheaper accommodation and tax-free part-time jobs for students.

of education. Some evidence points to the likelihood that the proportion of adults in some type of adult education has increased to over 30 % by 1998 (OECD, 2000: 43), but it is impossible to make any firm conclusions due to problems with comparability of data. Nevertheless, Slovenia remains far behind the most developed states.

Table 12: Share of the adult population in various types of education in 1994

Country	Share of population in adult education
Canada	38.9 %
Netherlands	37.8 %
Poland	14.3 %
Sweden	52.9 %
Switzerland	39.6 %
USA	42.4 %
Slovenia (1992)	17.7 %
ACS, 1998: 119	

3.2 Employment and labour market policies

Employment and labour market policy is perhaps the one policy area that needed the most careful institutional build-up. This is not so surprising considering the fact that unemployment has not been an issue for decades. However, things have changed since then. Nowadays labour market policies in Slovenia do not deal only with primary functions of alleviating unemployment and, as is the case of unemployment insurance, with preventing the unemployed individual from falling into poverty and social exclusion. They promote shifts from the industrial to service economy by encouraging re-qualification and education of the unemployed.¹⁹ Employment policies should promote development of more flexible forms of employment, reduce rigidities in the labour market, which had previously caused an increasing gap between unprotected unemployed 'outsiders' and well protected employed 'insiders'. (Esping-Andersen, 1996) Hence, both policy areas are an integral part of wide structural reforms by being able to change the structure of the economy and also of the labour market, obviously an important aspect of any economy's environment.

Labour market policy issues: There can be two reasons for unemployment levels. Problems can appear either on the demand side, or on the supply side of the labour market. Or on both sides, which is usually the case, especially in transition countries. What has happened in Slovenia? It is certainly true that demand for labour could be higher and that falling production

¹⁹ Notice that the over-industrialisation of the economy was an important distortion of socialist development, something also seen in Slovenia. The ratio of persons with employment in services exceeded those with employment in industry even up to the beginning 1990s. This 'de-industrialisation' was initially forced by bankruptcies of non-competitive industrial enterprises and massive layoffs. Compared to the EU its structure is still over-industrialised.

and poor competitiveness play a role. But this is not the whole story. There are also at least two important problems on the supply side: structural inconsistencies and inflexibility of the labour force.

Skills mismatch is a big problem in the Slovenian labour market. Skills that are demanded in the labour market do not match the skills of the unemployed (Ignjatović et al. 2000: 10-11). This is one of the main reasons for the aforementioned chronic problems with long-term unemployment. A structural shift from technologically undemanding heavy industry to service industries implies a shift in demand from a relatively uneducated labour force to a young, flexible, educated workforce. Structural inconsistencies exist both at the lowest and at the highest of educational levels. Data shows that the number of semi- and unskilled registered unemployed by far exceeds registered vacancies. On the other hand, there are currently not enough unemployed people with university level education to meet the demand in the labour market.

The **lack of labour force flexibility** is also a big problem. Full-time employment has been the only existing and meaningful employment for decades. There always existed a certain level of informal economy, moonlighting, but mostly as an additional activity. This has changed in recent years. The only preferred and desirable form of flexible employment is self-employment, which is actively promoted by the NEO. In the first years of transition the number of self-employed increased rapidly but later stabilised at 12 %. Contract and cash-in-hand forms of work are less favourable and have only increased to about 3 % of all employed since 1991. Part time employment is also showing some signs of growth but is still insignificant with about 8 % of the workforce. The least favoured form of work is temporary employment, which has been increasing constantly throughout the 1990s. This type of employment is more in favour of employers because of difficulties when one wants to fire a worker. Instead of being a factor of dynamics in the labour market this type of employment has a bad reputation because it has supposedly been used as a way to sack pregnant employees without difficulties.

Table 13: Flexible forms of employment

	1991	1992	1993	1994	1995	1996	1997	1998
Self-employment	14.1	12.8	12.1	12.2	12.2	12.5	11.9	12.5
Contract and cash-in-hand work	-	1.9	3.0	2.9	2.3	2.3	3.0	3.1
Temporary work	4.8	5.9	6.3	7.1	7.5	8.4	10.9	11.7
Part-time employment	5.8	4.6	5.3	5.5	5.7	6.8	8.3	7.8

Source: SORS, 1993-1998

Active labour market policies in Slovenia: This situation has started to call for various active policy measures the supply side of the labour market. Increasing costs of unemployment benefits and bad experience with early retirement programmes have highlighted the need for more active policies. Hence, the NEO has developed several active measures. They can be divided into the following groups:

- job clubs
- education and training programmes
- reimbursement of employer's social contributions
- co-financing of solving problems with surplus labour
- co-operation in projects of enterprise restructuring
- support for self-employment of the unemployed
- training and employment of the disabled and subsidising of sheltered workshops
- public works
- regional and local employment projects
- labour funds.

Job clubs are innovative programmes for first-time job-seekers or for those who have been registered as unemployed for at least six months. The programme has been designed to keep the unemployed busy²⁰ and to provide people with knowledge about job-searching techniques. This programme is quite successful in terms of its participants' subsequent employment.²¹ However, this is not a major programme and only those who have appropriate skills (and know what kind of work they are seeking) can participate. For the rest of the unemployed a range of **educational and training programmes** was developed, which are considered to be of most importance in the context of aforementioned skill mismatch within economic restructuring. The long-term unemployed and older people take part especially in this programme, which gives it an important psycho-social dimension in terms of activating discouraged and socially isolated people. This programme is also very differentiated, consisting of different sub-programmes: for information and motivation, employment workshops, career-goal workshops, programmes for psycho-social rehabilitation and personal development, programmes for functional education, various programmes of general and vocational education, in-the-workplace training programmes etc.

Three **programmes** are geared towards **encouraging employers** to hire additional workers or to help them in not dismissing surplus labour. The first is a programme of co-financing to solve the problem of surplus labour. This programme is geared towards employers who are planning to sack workers whose labour they no longer need. It is indicative that most of these programmes were implemented in enterprises from old industry such as iron-works, woods, plastics etc. The problems of workers who are no longer needed because of the introduction of new technology are tackled by means of re-qualification within this programme. The second, reimbursement of employer's contributions, is a selective programme, intended to encourage employers to hire older workers, the long-term unemployed, or first-time job-seekers. The third programme involves co-operation in enterprise restructuring. This programme is a part

²⁰ They have to attend meeting four hours a day and are allowed to skip then only if it has to do with a job search.

²¹ 1048 unemployed completed this programme in 1998 and 563 of them found employment within the duration of programme or within two months upon completing the programme (NEO, 1998).

of the wider micro-economic policy of supporting those enterprises in need of restructuring. The NEO is implementing the educational part of this restructuring.

One of the more important programmes is **support for self-employment**, which should to some extent make up for past 'sins'. Private entrepreneurship was not promoted for decades and certain restrictions blocked the development of entrepreneurial potential and enterprises (Glas, 1997; Glas et al. 1998) with legislation keeping them at the level of small craft. Policies are being formulated in a way to protect against deficiencies that unemployed face when trying to set up their own small businesses. These include motivation, education and training, advice, financial help.

Very important programme is being developed to **focus on disabled groups**. The number of unemployed disabled people has increased from approximately one thousand in 1989 to almost eleven thousand in 1998, when they represented 9.8 % of all unemployed people. They are especially difficult to employ, not least because they are in most cases poorly educated, because three quarters of them are above 40 years of age with about the same amount of them being unemployed for more than 24 months (NEO, 1998). The disabled are offered various types of training and education programmes and financial help is offered to employers to adapt their workplaces to special needs. They are also offered jobs in sheltered workshops, or in companies that are eligible for exemption from certain taxes and contributions. This helps them to compete successfully in the market.

The make-up of those unemployed is such that in spite of various aforementioned policies, certain categories of the unemployed are really difficult to reemploy, especially older unskilled workers. **Public works** were introduced as a special category of employment policy as early as 1991. Their main functions are to combat long-term unemployment, to prevent discouragement of the long-term unemployed, to prevent their social isolation, and the maintenance and development of their working habits and even a promotion of self-employment, which should be based on experience acquired during participation in public works. Since 1991 this programme has expanded and evolved. The most important change implemented since 1999 has been the transformation of public works programmes from programmes for the unemployed into specific types of public temporary employment. Well over ten thousand unemployed participated in these programmes in 1999 (NEO, 1999).

The programmes for **local regional and employment projects** and for local initiatives are not as widely implemented as the rest of the programmes. Their purpose is to intervene on the demand side of the market to take advantage of local circumstances and initiatives. The programme for local regional and employment projects started in 1998. Sixteen projects were implemented in the first year. They supported activities in tourism (5), services (4), social services (2), development of rural areas (2), various crafts (2) and human resource development (1). The programme for local employment initiatives supported 26 different local employment initiatives in 1998.

Labour funds are a new form of active labour market policy and are intended to help workers who have been made redundant to re-enter the labour market. The impact of this programme is difficult to assess because of its recent implementation. However, they could in the future play an important role because they are formulated in a way to be able to approach problems

on a regional and local level and take advantage of being able to approach each problematic case individually.²²

There is a strong need to increase available resources for active labour market policies. Certain **policy re-orientation** cannot be avoided. However, a dramatic policy shift and **reallocation of resources** from passive to active measures is not a simple decision. The system of social transfers, especially unemployment benefit, is such that a decision to shift resources from passive to active policies would require systemic changes. Unemployment benefit is a right, following from individual's contributions as a part of obligatory unemployment insurance. This is causing a strong systemic rigidity and is effectively blocking policy-makers' ability to redirect available resources. Resources for certain other types of benefits have already been partly redirected into active policies. (This is the main reason for an increase in funds available for public works in 1999.)

However, one has to distinguish between active policies that are formulated and implemented as remedies for certain acute unemployment problems, especially public works, and active policies with a certain developmental implication. Needless to say that the first kind of policy is relevant and needed in case of difficulties and that it undoubtedly has positive effects on labour force qualification. However, too little attention has so far been given to different developmental projects that would be more sustainable, generating employment as a sort of by-product of economic growth. For example, while many active employment policies are implemented in backward regions, they often act as short-term remedies to the problems of the most marginal groups in the labour market. Not enough of them allow exploitation of indigenous developmental potential. Some of the existing policies already have the potential to do so, especially promotion of self-employment, support for regional and local employment projects and labour funds. However, these are new policies and the proportion of funds dedicated to these purposes is too small; also all of these policies are poorly implemented or non-existent in backward regions, while others, such as public works, are over-represented.

This is a blind spot of the Slovenian labour market policy and developmental policies in general. Too high a percentage of national GDP is invested in the 'past', in sometimes hidden subsidising of unsuccessful enterprises, or in social transfers without relevant training programmes that would prepare the unemployed for successful participation in the labour market etc. And too low a percentage is invested in the 'future': education, research, innovative incentives, indigenous entrepreneurship etc. (Sočan, 1998). Slovenia has to shift from its orientation from the past to the future. Almost 29 billion SIT were spent on various social transfers in 1999 and less than 15 billion SIT were spent on active labour market policies. Public works accounted for nearly 45 % of all active employment policies.

However, there is certain evidence that points to the possibility that the focus is, at least to some extent, shifting. This is caused by the efforts of Slovenia to join the EU, i.e. eligibility for certain accession funds for which Slovenia is already eligible. The 'lucky' coincidence is that projects that are funded with EU money have to be implemented at a local or regional

²² First labour funds were established in 1998 and they all dealt either with redundant workers of a special large downsizing and restructuring enterprise (e.g., an iron-works plant) or operated at a regional basis.

level, have to be qualified as innovative and have to be able to grow and generate employment.²³ If the projects that are to be financed from EU money do not meet the requirements, the state cannot receive these funds. Another important positive consequence is the fact that EU funds have to be met with funds from a benefactor, be it private or public funds, bringing the attention of state officials to the need for **policy shifts** and mobilisation of local private capital and entrepreneurial activity.

4 Conclusion: implications for development?

In spite of the aforementioned positive economic trends, Slovenia continues to be a transition country, and not only because of its recent history. After ten years many reforms have been conducted and many are still unfinished. Transition from socialism to a market economy has certainly taken its toll, especially at the beginning, impacting on the everyday lives of its citizens. But it is different from many other transition economies. It has not lost the social dimension of development, both in terms of dissemination of positive achievements and as one of the prerequisites of development. Slovenia is not a 'typical' transition country with rapidly emerging phenomena like 'welfare gaps' (Svetlik, 1993) or 'torn safety nets' (Standing, 1996), which are common characteristics of many countries in transition. Its population is still relatively equal and well-off. After ten years of transition Svetlik's early observation of a '**soft** approach to social policy reform' (Svetlik, 1993) seems to be true. Even though the responsibility for well-being is shifting from the state to the individual it would be too courageous to say that we are witnessing a general rapid loss of welfare. The security is of a different nature, but it is still there. An estimate that another welfare system is substituting for the quasi-statist welfare system may be more accurate. (Kolarič, 1994)

That is why we have to estimate often stated criticisms of a too generous welfare state in Slovenia as being too expensive and undermining its competitiveness as a derivation of narrow conception of competitiveness. These **critics**, who come from the side of employers and also some experts, define competitiveness as cost competitiveness. However, a huge amount of work exists that recognises the need for a broader conception, most notably the research of an important economist Porter (1990) and of the IMD, which publishes the annual World Competitiveness Yearbook. Undermining the existing social dimension would seriously impact future prospects for sustainable endogenous development. This is a basic prerequisite. The correlation between levels of inequality and generalised trust is statistically positive.

Trust is a valuable intangible resource for economic development, because it enables the formation of intermediary mechanisms between public and private sector, between enterprises and universities and between enterprises themselves. The need for such mechanisms is recognised as an unavoidable aspect of economic development. Hence, the role of social policy in promoting participation, inclusion and a sense of belonging is invaluable. It would be too pretentious to claim that the current state of factors that determine the developmental prospects of Slovenia is great. I have also pointed to some aspects that urgently need to be adjusted or

emphasised. Human resources are certainly one of the factors where the current situation is not too encouraging. Data from the World Competitiveness Yearbook and from a study of functional literacy are firm indicators of Slovenia's international position. (IMD, 2000; OECD, 2000) However, building these factors will be a long process and Slovenia is in this respect firmly embedded in its past. However, it should also (and it so far has) invested in the future. Slovenia's social policy is somewhat passive and without a clearly defined role in the integral framework of strategies of socio-economic development.

23 Since the Luxembourg summit in 1997 the EU has been emphasising entrepreneurship as a second pillar of EU employment policy.

Bibliography

ACS (1998): Nacionalni programme izobraževanja odraslih: strokovne podlage. (National Programme for the Education of the Adult). Ljubljana: Andragoški center.

Adam, F. and Rončević, B. (2001): Dialogue Between Social Sciences and Public Administration in Slovenia: The Case of the Strategy for Economic Development of Slovenia. In: Nikolai Genov ed.: Science in Southeast Europe. Sofia: Bulgarian Academy of Sciences.

Adam, F.; Makarovič, M; Rončević, B.; Tomšič, M. (2001): Socio-kulturni dejavniki razvojne uspešnosti: Slovenija v evropski perspektivi. (Socio-cultural Factors of Developmental Performance: Slovenia in the European Perspective.) Ljubljana: Znanstveno in publicistično središče.

Bela knjiga o vzgoji in izobraževanju v Republiki Sloveniji. White book on education in Republic of Slovenia (1995): Ljubljana: Ministry of Education.

Boh, K. (1992): "Reform Issues of the Health Care System in Slovenia". In: I. Svetlik, ed. (1992): Social policy in Slovenia: Between tradition and Innovation. Aldershot: Avebury.

Černič Istenič, M. (1997): "Pet let privatizacije v zdravstvu v Sloveniji" (Five Years of Privatisation of Health System in Slovenia). Neprofitni menedžment, 1997, 1, 1, 16-19.

Esping-Andersen, G. (1990): The Three Worlds of Welfare Capitalism. Cambridge: Polity Press.

Esping-Andersen, G. ed. (1996): Welfare States in Transition: National Adaptations in Global Economies. London: Sage.

Ferfila, B and Phillips, P. (1999): "Slovenia at Eight Years – on the Edge of Europe". In: Naše Gospodarstvo, 1999, 45, 5-6, 441-454.

Genov, N. ed. (2000): Labour Markets and Unemployment in South-eastern Europe. Berlin: WZB.

Gershuny, J. (1983): Social Innovation and the Division of Labour. Oxford: Oxford University Press.

Glas, M. (1997): Entrepreneurship and Culture: An International Perspective. Case of Slovenia. Working paper. Ljubljana: Ekonomska fakulteta.

Glas, M., Hisrich, R.D., Vahčič, A., Antončič, B. (1998): The internationalisation of SMEs in transition economies. Paper presented at the International Conference on Globalization and Emerging Businesses: Strategies for the 21st Century. Montreal, September 26-28, 1998

Hall, P. (1977): Europe 2000. London: Gerald Duckworth.

Ignjatovič, M., Kopač, A., Svetlik, I., Trbanc, M. (2000): Unemployment and Employment policies in Slovenia, manuscript.

IHI (1996): Poslovno poročilo (Business Report). Ljubljana: Institute for Health Insurance.

IHI (1999): Poslovno poročilo (Business Report). Ljubljana: Institute for Health Insurance.

IHI (2000): Poslovno poročilo (Business Report). Ljubljana: Institute for Health Insurance.

IMAD (1999): Human Development report: Slovenia. Ljubljana: Institute for Macroeconomic analysis and Development.

IMAD (2000): Human Development report: Slovenia. Ljubljana: Institute for Macroeconomic analysis and Development.

IMD (2000): World Competitiveness Yearbook. Lausanne: IMD.

Johnson, N. (1987): The Welfare State in Transition. Sussex: Wheatsheaf Books.

Kolarič Z. and Svetlik, I. (1987): "Jugoslovanski sistem blaginje v pogojih ekonomske krize" (Welfare System of Yugoslavia in Conditions of Economic Crisis). IB revija, 21, 8-9.

Kolarič, Z. (1991): "Od 'enosmerne' k 'pluralni' socialni politiki" (From 'Oneway' to 'Plural' Social Policy). Teorija in praksa, 1991, Vol. 28, No. 5-6, p. 576-585.

Kolarič, Z. (1992): "From Socialist to Post-socialist Social Policy". In: I. Svetlik, ed. (1992): Social policy in Slovenia: Between tradition and Innovation. Aldershot: Avebury.

Kolarič, Z. (1994): "Vloga humanitarnih neprofitno-volonterskih organizacij v slovenskem sistemu blaginje v 90-ih letih" (The Role of Humanitarian NGO's in Slovenian Welfare System in the Nineties). Časopis za kritiko znanosti, 1994, Vol. 22, No. 168/169, 143-150.

MDDSZ (1999): Nacionalni programme boja proti revščini in socialni izključenosti (National Anti-poverty and Social Exclusion Programmeme). Draft version. Ljubljana: MDDSZ

Mencinger, J. (1989): "Economic reform and unemployment". Privredna kretanja Jugoslavije, 19, March, 23-38

Milanovic, B. (1998): Income, Inequality and Poverty during the Transition from Planned to Market Economy. Washington: The World Bank.

Mishra, R. (1982): Society and Policy. London: The Macmillan Press.

NEO (1998): Letno poročilo (Annual Report) 1998. Ljubljana: National Employment Office.

NEO (1999): Letno poročilo (Annual Report) 1999. Ljubljana: National Employment Office.

O'Driscoll, G.P. & Holmes, K.R. & Kirkpatrick, M. (2001): 2001 Index of economic freedom. Washington: The Heritage Foundation and The Wall Street Journal.

OECD (1997): Gospodarski pregledi: Slovenija (Economic Overview: Slovenia). Paris: OECD.

OECD (2000): *Literacy in the Information Age: Final Report*. Paris: OECD and Statistics Canada

Orazem, P. F. in **Vodopivec, M.** (1997): "Value of Human Capital in transition to market: Evidence from Slovenia". *European Economic Review*, 1997, 41, 3-5, 893-903.

Piciga, D. (1997): "Zasebno šolstvo v Sloveniji v kontekstu sprememb v celotnem šolskem sistemu" (Private Education in Slovenia in the Context of Changes of Education System). *Neprofitni menedžment*, 1997, 1, 1, 12-15.

Porter, M. (1990): *The Competitive Advantage of Nations*. London: Macmillan Press.

Redmond G. and Hutton, S. (2000): "Poverty in Transition economies: An Introduction to the issues". In: S. Hutton and G. Redmond eds. (2000): *Poverty in Transition Economies*. London: Routledge.

Ritzen, J. (2000): *Social Cohesion, Public Policy and and Economic Growth: Implications for OECD Countries*. Paper presented to OECD/HRDC International Symposium on The Contribution of Human and Social Capital to Sustained Economic Growth and Well-being. Quebec City, March 19-21 2000.

Ritzen, J.; Easterly, W. and Woolcock, M. (2000): On "Good" Politicians and "Bad" Policies: Social Cohesion, Institutions, and Growth. World Bank working paper 2448.

Rus, V. (1990): *Socialna država in družba blaginje* (Social State and Welfare Society). Ljubljana: Domus.

Ružica, M. (1987): *Socijalna politika 80-ih: Kontinuitet ili promjena socijalne politike?* (Social policy in the 1980s: Continuity or Change in Social Policy) Beograd.

Slovensko javno mnenje 1998 (Slovenian public opinion survey). Centre for Public Opinion Surveys, Institute of Social Sciences, Ljubljana.

Sočan, L. (1998): "Aktualna vprašanja izobraževanja odraslih v Sloveniji" (Current questions of education of the adult in Slovenia). In: ACS (1998): *Nacionalni programme izobraževanja odraslih: strokovne podlage*. Ljubljana: Andragoški center.

SORS (1993): *Statistical Yearbook of Republic Slovenia*. Ljubljana: Statistical Office RS.

SORS (1995): *Statistical Yearbook of Republic Slovenia*. Ljubljana: Statistical Office RS.

SORS (1998): *Statistical Yearbook of Republic Slovenia*. Ljubljana: Statistical Office RS.

SORS (1999): *Statistical Yearbook of Republic Slovenia*. Ljubljana: Statistical Office RS.

SORS (2000): *Statistical Yearbook of Republic Slovenia*. Ljubljana: Statistical Office RS.

Standing, G. (1996): "Social Protection in Central and Eastern Europe: a Tale of Slipping Anchors and Torn Safety nets". V: Gosta Esping-Andersen ed. (1996): *Welfare states in Tran-*

sition: *National Adaptations in Global Economies*. London, Thousand Oaks, New Delhi: Sage.

Stanovnik T. and Stropnik, N. (2000): "Income Distribution and Poverty in Slovenia". In: S. Hutton and G. Redmond eds. (2000): *Poverty in Transition Economies*. London: Routledge.

Stanovnik, T. and Stropnik, N. (1998): "Vpliv socialnih transferjev na revščino in dohodkovno neenakost v Sloveniji" (Impact of Social transfers on Poverty and income Inequality in Slovenia: a Comparison between 1983 and 1993). *IB revija*, 1998: 8-9-10, 69-82.

Stropnik, N. (1999): *Family Tax Burden: 3rd Research Report*. Ljubljana: IER.

Svetlik, I. & Hojnik, I. & Kolarič, Z. & Vojnovič, M. (1988): "Yugoslavia: Three Ways of Welfare System Restructuring". In: A. Evers and H. Wintersberger eds. (1988): *Shift in the Welfare Mix: Their Impact on Work, Social Services and Welfare Policies*. Vienna.

Svetlik, I. (1993): "Reform of Social Policy in Slovenia: a soft approach". *Journal of European Social Policy*, 1993, 3, 3, 195-208.

Svetlik, I. (1995): "Socialna politika v Sloveniji – iskanje novega ravnotežja" (Social Policy in Slovenia – in Search for a New Balance). In: S. Hribar-Milič ed. (1995): *Vpliv socialnih stroškov, cene dela ter izkoriščenosti človeških virov na konkurenčnost slovenskega gospodarstva*. Ljubljana: Gospodarska zbornica Slovenije.

Svetlik, I. in **Barle Lakota, A.** (2000): "Curricular Reform: The Case of Slovenia". in: S. Gabršček in N. Dimc eds. (2000): *Strategies of Educational Reform in South East Europe Countries*. Ljubljana: Open Society institute and CPZ.

Vodopivec, M. (1996): "The Slovenian Labor Market in Transition: Empirical Analysis Based on Data on Individuals". *IB review* 1996, 30, 1/2, 19-30.

World Value Survey (1995)

Addressing emergency: Welfare state reform in South Eastern Europe

Dr. Alfred Pfaller
Managing Editor
International Politics and Society
Friedrich Ebert Foundation
Bonn

October 2001

Social protection in comparison	217
The new institutional set-up	217
Four types of social reality	218
The break-away of the economic basis	220
The effects on social protection.....	222
Preventing social exclusion in times of economic emergency	223
Striving for high employment	224
Providing essential goods and services	226
Securing a high level of education for all.....	227
High-quality health-care for all	228
Pensions: Focus on old-age poverty rather than status-maintenance	229
Towards a post-emergency welfare state?.....	229

Devising fundamentally new mechanisms of social security has been an essential – unavoidable – part of the economic transition from socialism to capitalism all over the post-communist world. The present survey of ten South Eastern European states and regions with a quasi-state political status shows one consistent tendency: Everywhere attempts are being made to maintain a high degree of social protection and to set up institutions that are designed to achieve this goal in the context of a capitalist market economy.

Social protection in comparison

The new institutional set-up

Surprisingly perhaps in the light of the pervasive welfare-state debate throughout the West, South Eastern European reforms seem to aim at a continental European type of social protection. That is to say, provision for the contingencies of life (old age, disability, illness, temporary unemployment) is linked to the status of formal employment and financed by contributions that are expressed as a percentage of the salary. This contribution is divided into an employer's and an employee's share. In most countries both shares are equal. But there are also cases where the lion's share is counted as employer's contribution (80 % in Bulgaria). In international comparison, the ratio contributions/salary turns out to be high in all cases for which figures are reported – they reach a magnitude of around 40 %. Nonetheless, most systems of social insurance (pensions, health and unemployment) depend on additional contributions paid out of the government budgets. All countries and semi-independent states also foresee a lower tier of "welfare" transfers, targeting those persons or households who do not earn a subsistence income.

As with almost everywhere, the biggest chunk of the social security complex is pensions. Those countries which have come to reform their pension system (Albania, Bulgaria, Croatia, Romania, Slovenia) now have more than one pillar of old-age income maintenance. With the exception of Albania, which has opted for a two-pillar system, they have introduced the following structure:

- The first pillar functions on a pay-as-you-go basis; contributions are compulsory.
- The second pillar is funded; contributions are compulsory (employer-paid in Slovenia).
- The third pillar is funded; contributions are voluntary.

The health system has inherited the dominance (though no longer the monopoly) of the public sector as provider of health services. But as far as financing, the national health systems have been taken out of the governments' direct responsibility. Instead, they depend now primarily on contributions payable by the employed persons and their employers as a percentage of their salaries. They are also accessible to the self-employed, who contribute a share of their incomes.

All countries of the region have introduced an unemployment insurance that foresees – gradually decreasing – wage replacements for limited periods of time (mostly less than a year) for those employees who have been employed for a certain minimum time and paid their contributions into the insurance (together with their employers' share of those contributions).

New entrants into the work-force are not entitled to unemployment benefits. For Albania, Bulgaria and Romania, unemployment insurance was a radical innovation, as unemployment itself was not foreseen in the old socialist system. Not so for the countries of former Yugoslavia, which had inherited this type of social protection from their pre-independence past. This applies also to the active elements of an unemployment protection policy, i.e.

- “match-making” between job-seeking persons and manpower-seeking firms,
- training of job-seekers in order to enhance their chances of being hired, and
- assistance for the start of a business (as a self-employed seller of goods or services or even as an employer).

So far however, these active elements are not yet specially well developed anywhere in the region.

In the area of education, the countries of the region could build on pre-transition institutional set-ups. Public education, given the countries' level of per capita income, was of a very high standard. However, these standards went into decline after 1990 as financial resources became ever scarcer and as methods and curricula grew out of touch with modern requirements.

A remarkable feature of the South East European systems of social protection is their strong emphasis on child-related benefits (in the form of allowances for mothers or families or in the form of payments for newly-born children). This, too, is an inheritance from the pre-transition time.

Four types of social reality

For most of the countries and quasi-states, social reality from 1990 to now has been less shaped by a conscientious reform process than by a collapse of the economy, for which the term “catastrophic” is not exaggerated. In four cases, a devastating war has added to the general slide into wide-spread misery. Under such circumstances, it is of limited value to classify the cases observed in this study according to their welfare-state institutions, i.e. their *response* to the issue of social protection. Relevant insights on policy questions can rather be derived from a classification that focuses on the nature of the *challenge*. For the effectiveness of social-policy options, and hence real social development, depends largely on the kind of challenge to which social policy is called upon to respond. In this respect, the region includes highly different cases. Table 1 shows for the various states the basic conditions defining that challenge, namely the extent of the post-transition economic down-turn and – as the case may be – of the recovery in the second half of the 1990s.

Table 1: Real Economic Growth in South Eastern Europe

Country	Index 1994 (1989 = 100)	Index 2000 (1989 = 100)	Index 2000 (1996 = 100)
Albania	71	102	117
Bosnia-Herzegovina			183
Bulgaria	78	75	104
Croatia	63	81	113
Macedonia	72	81	113
Romania	79	77	87
Slovenia	86	110	120
Yugoslavia	42	45	96

For our purposes we can classify the ten cases into four groups:

- A. Countries on a modest level of per capita income, which experienced a remarkable decline of GDP per capita in the initial years of transition, and whose economic recuperation since has been insignificant or nil. This group comprises Romania, Bulgaria and Macedonia.
- B. Countries which experienced a remarkable decline of GDP per capita, but whose economy recuperated relatively well thereafter. This group comprises medium-income Croatia and very-low-income, still highly agrarian Albania.
- C. One country, Slovenia, whose per capita income is twice as high as the next richest of the region, whose post-transition decline was relatively modest and whose economy has recuperated well since then.
- D. Countries and semi-independent states whose development during most of the time under consideration has been determined by the Yugoslav secession wars and which still have not found their way back to a “normal” government process (in part because their legal status is undefined or highly contested). This group comprises the cases of Bosnia-Herzegovina, Serbia, Montenegro and Kosovo, all of whom are by now on a relatively low level of per capita income.

Of course, this classification is itself in flux. For example, if Bulgaria continues with its 1998-2001 economic growth performance, it would soon have to be assigned to group B. Likewise, if Croatia continues with its sluggish growth of recent years, it will slip into group A. Also, in 1996, Romania would have been considered a relatively successful country within the region, because its post-transition decline in GDP of 27 % compared favourably with Croatia's 38 %, Albania's 40 % and Macedonia's 47 %. But Romania's decline has continued until now whereas other countries have started sustained recuperation.

Economic growth and economic decline are of the highest importance for the functioning of a welfare state and for the options for reforming it. The reason is not that the level of affluence determines the size of the “cake” available for welfare-state redistribution; the decisive link is the labour market. Economic growth and decline are strongly associated with the evolution of employment and unemployment, which, in turn, affect (a) the claims made on welfare-state

income support and (b) the contribution base on which the various welfare-states can recur to finance themselves. Under conditions of lasting mass unemployment, the scope for social protection schemes is very different from what it is in a situation where the bulk of the adult population has access to jobs in the "formal" economy or else to non-precarious self-employment. And, in fact, if we look at the social situation as it is presented in our ten case studies, it is evident that the economy provides the key to what happened and circumscribes the range of what can be done in terms of social protection.

Under a longer-term perspective, group B, which is characterised by sustained – though not dramatic – economic recuperation, would seem to be the most relevant one; the one which exhibits already the economic context profile one would expect to be the normal one throughout the region in the not-so-distant future. For the countries of group A, as well as group D, the hope might be formulated that they soon will join those of group B, whereas Slovenia may be considered a special case, which has much more in common with the Central European reform states than with its Balkan neighbours. On the other hand, the transition and war-caused economic catastrophes confront the states of group A and D with social challenges that call for an emergency response. Simulating normalcy as far as welfare-state policies and institutions are concerned – because labour markets will soon function "normally" again anyway – is probably inadequate. In a way, devising adequate social policy responses to a state of economic emergency is, for the time being, the most common challenge in the region. "Adequacy" under the present conditions does not only mean to do the best that can be done to alleviate actual poverty and protect future life chances of all citizens, it also means to facilitate the hoped-for return to nearly full employment. Therefore, at present, group A should be considered as paradigmatic for the social policy issue in South Eastern Europe.

The break-away of the economic basis

All countries of the region which started the transition towards a capitalist market economy experienced an almost immediate steep economic downturn. It was least pronounced in Slovenia, but even there it amounted to one fifth of GDP in cumulative terms over a few years. Elsewhere it achieved magnitudes of well over one third to almost one half of GDP. Exact figures are most likely wrong, but they do not really matter. What matters is the social consequences. These were threefold in the region:

1. Large parts of the labour force were de facto sent into unemployment.
2. Incomes of large parts of the population, also those who stayed employed, plummeted, often below subsistence level (the appearance of wide-spread poverty).
3. Income disparity increased significantly – despite a fairly common policy stance of sharing out unavoidable income contraction.

It is beyond the scope of this study to analyse the causes of the dramatic decline in output throughout the region. The economic downturn corresponds to the pattern observed in practically all transition countries, with the exception of China and Vietnam (but then these last two are not "transition countries" in the way that all the others, from Poland to Kyrgyzstan, are). In the South East European region with its small trade-dependent economies, a major factor was certainly the collapse of the old intra-bloc division-of-labour structures, including the

break-down of the Yugoslavian federal state. The steep fall of output made catastrophe on the labour market unavoidable. Companies had to shed labour to balance earnings and costs. Quite a few ceased to exist. But it should be noted that throughout the region efforts were made to cushion the effect on employment. States went on subsidising ailing companies, but – of course – had to face ever tighter fiscal limits. The necessity to cut costs was not exclusively, or even predominantly, translated into labour shedding. A response at least as important was the reduction of real wages – often the inflationary way via insufficient wage adjustments to soaring prices or via delayed wage payments. Social policy tried to mitigate unemployment by sending many workers into early retirement – thus exacerbating the problems of the pension system. We will come back to this point later on.

As long as output levels stay repressed, as has been the case in the countries of group A and – with the exception perhaps of Bosnia-Herzegovina – group D, there is practically no hope for employment. Relief might only come from large-scale emigration, which took place, for instance, from Albania and Kosovo. But even economic recovery cannot be expected to restore pre-transition employment levels immediately. Under the old regime, labour-hoarding by state-owned companies was common. In fact, it was a vital part of the socialist welfare state. In contested markets, this will be less and less feasible. Companies will have a strong incentive to raise labour productivity, even though state subsidies and depressed wages may slow down this process. At present, much of the restructuring still has to be done – with corresponding negative consequences for employment. As we will discuss later on, the management of this restructuring process should be an important consideration when setting up new welfare-state institutions.

The significant increase in poverty reported for all countries of group A and D resulted from both loss of jobs, uncompensated for by adequate social-security transfers, and falling real wages. People were thrown back to private survival strategies. Perhaps the most common one was the "reduction of needs"; renouncing any non-essential consumption. Another emergency response seems to have been the liquidation of savings. Subsistence agriculture offered an escape from starvation to households with some access to fertile land. But many people also retreated into what is called the "grey economy", i.e. into market transactions unaccounted for by the tax authorities. One can safely assume that, at least in some parts of the region, a non-negligible share of these "grey" activities has been of an outright criminal nature. Altogether, the growth of the "informal" sector – another word for non-taxed, non-regulated and largely not statistically counted economic activities – is reason to assume that many people suffered less than the official economic indicators insinuate. Growing "informality" is most likely also a source of growing inequality, both because different informal activities offer widely differing income chances and because different parts of the population have different access to informal markets. In a way, the informal sector functions like a free-market economy, uninhibited and undistorted by regulations. But because it has to unfold in the shadow of the law, lacks transparency and is not protected against abuse, it also resembles in large parts a rent economy (force playing an important role for the protection of rent sources).

The effects on social protection

People who no longer earn "enough" in the labour market, because they have no job or because their wage income does not keep them out of poverty, become candidates for transfer income. This can take the form of unemployment compensation, which is somehow related to the person's former salary, and it can take the form of social assistance. The economic catastrophe in large parts of South Eastern Europe created a situation in which large parts of the population would depend on income support. The problem quickly reached a magnitude for which no modern welfare state would be equipped. Unemployment compensation and social assistance schemes in most states of the region were only recently set up, mirroring more or less continental European examples. No matter what the specific advantages and shortcomings in each case are, they are designed for a normally functioning economy with only moderate rates of unemployment, but not at all for catastrophes as occurred in the course of transition (and war). The ratio of transfers to gross domestic product required to alleviate poverty for the whole population and to smoothen the decline of income for the formerly employed exceeds by far the taxing capability of the newly reformed states and probably anything compatible with a functioning capitalist market economy.

Hence, the immediate problem became quickly one of fending off potential claims, of sizing down the range of permitted claims to a magnitude that could be handled with the states' diminished tax revenues. This was achieved through varying combinations of tightened eligibility criteria, reduced allowances, delayed payments and simple non-attendance of claims. Part of the desperate adjustment attempts was the shifting of claims from one transfer scheme to another, notably in the form of early retirement.

While the need for income transfers grew, the means to satisfy it shrank because the collapse of the economy reduced the tax base. This holds for taxes in general, regardless whether they are levied on income, consumption, transactions or assets. But it became particularly acute for social security contributions ("taxes") levied on employment. The continental European type welfare state, which finances unemployment benefits, pensions and health insurance benefits through job-related contributions (by employers and/or employees) proved particularly ill-equipped for the post-transition emergency. Not only did the economic disaster reduce the number of taxable jobs but the contribution load itself spurred the substitution of tax-free "grey-economy" jobs for taxable official jobs. Under normal circumstances, the link between contributions paid and entitlements earned could be a major incentive to work officially. But in most countries of the region, the collapse of the social protection system quickly made these entitlements worthless.

Diminishing tax revenues, employment-related or otherwise, also created severe problems for the pension system and those welfare-state programmes that do not aim at income maintenance, notably the health-care system and public education. As already mentioned, the pension system not only suffered from the shrinking contribution base and falling tax revenues, it also faced rising claims due to the generalised practice of sending excess workers into early retirement. The vicious circle of financial strain, rising contribution rates, increasing avoidance and further shrinkage of the contribution base has affected the pension system as well. Even though pensions seem to be a highly sensitive issue in all the countries observed, most governments saw no way around de facto devaluing entitlements (insufficient adjustment to

inflation, delayed payment). Regarding health, lack of resources significantly diminished the quality of services, thus undermining the principle of universal coverage. Access to good-quality treatment has become increasingly a question of extra payment and hence of purchasing power. Similar tendencies are observable with regard to higher education, where universal access, subject to aptitude tests, is being eroded in favour of affordability.

Preventing social exclusion in times of economic emergency

With the exception of those states who just recently recovered from war and are only starting to go about reforming their institutions or whose political status is still undefined, the countries of the region have more or less decided on the basic architecture of their future social policy. Even though many details are still under discussion, one can say that they are trying to follow the example of the continental European welfare state. There will be two tiers of welfare provision: one employment-related and contribution-financed, and a residual, tax-financed one for those who are not adequately covered under the first tier. In addition, there will be tax-financed universal provision of education, even though it is not yet clear to what extent this will de facto apply to higher education. The new pension system typically will be based on three pillars: (a) a mandatory pay-as-you-go insurance with a bottom line to prevent old-age poverty, (b) a mandatory supplementary funded insurance and (c) a voluntary funded insurance.

The advantages of the continental European welfare architecture are known: most notably, a strong visible association of contributions paid and entitlements earned. But the model also has very clear disadvantages. On the one hand, it needs near full employment, otherwise the second, tax-financed tier would be overstrained while there would still be large-scale social exclusion. On the other hand, the system itself makes it more difficult to achieve full employment under conditions of labour abundance, because it tends to make manpower more expensive. It easily creates a so-called poverty trap, because net market wages at the low end do not constitute an improvement over social assistance granted to the poor. The new welfare-state which is on the way to being established throughout most of South Eastern Europe will protect reasonably well the standard of living of those who are regularly employed (after retirement, in the case of disability, in case costly medical treatment is needed and even during short periods of unemployment). But it builds on the assumption that sustained economic growth, which in due course restores employment, is around the corner. Should that expectation prove wrong – for whatever reason – the second tier, which aims at preventing residual poverty, will most likely face a financial overstretch. Then it is to be feared that wide-spread poverty, such as we are witnessing now, will continue. But the emergency character of the social situation will be transformed into a lasting social dualism as can be seen in many Third World countries: marginalisation will become endemic, affecting not only the unlucky ones of today but also their children. For the danger is that – because of insufficient state revenues – universal provision of essential services, such as health-care and education, will be insufficient to guarantee equal chances for those who grow up in economically disadvantaged households as compared to those who can afford to buy private top-up provision.

What to do? When means are extremely scarce it is extremely important to set priorities. May be South Eastern Europe's economic fortunes will soon turn decisively to the better and alle-

viate the need for harsh budgetary choices. But it seems that there is enough reason not to be overconfident. Rather than simulating normalcy, social policy should explicitly address the emergency situation which most of the countries find themselves in. The goal must be twofold:

- Prevent lasting exclusion of parts of the population.
- Facilitate long-term economic development.

There is no politically realistic way a poor country can secure social inclusion for all its population under conditions of mass unemployment. Therefore, South Eastern European countries should do everything to get as many people back to work as possible, even if economic growth remains modest in the years to come. This is as much a matter of doing the right things as avoiding the wrong things. But surely, seeking relief on the employment front is not enough. Success cannot be decreed, economic adversity almost certainly will continue to demand its toll. Moreover, for large segments of the labour force, the only employment that can be hoped for, not only in the short run, is of the extremely low-wage and low-security type. Wage income alone will not suffice to protect against poverty. Therefore, it would be important to provide those goods and services which are essential for social inclusion independently of individual or family purchasing power. These essentials include adequate health-care and education in accordance with the person's intellectual capabilities. They might also include an adequate basic diet (particularly for children, whose development depends on it), a minimum standard of housing and access to public facilities.

Striving for high employment

Sustained high rates of economic growth will eventually bring about full employment, provided the job-seekers' skills are not too far away from what the labour market demands. In times of sluggish economic growth, there is a tendency towards stagnating or even declining employment, because rising productivity reduces the demand for manpower while the organisation of the labour market does not adjust to increasing labour abundance. Then public policy is called upon to re-adjust the labour market. To this purpose, interventions are possible (or as the case may be: demanded) on several fronts:

- **on the price front of the supply side:** de-burdening the price of labour from taxes and social security contributions, perhaps subsidising employment;
- **on the quantity front of the supply side:** reducing the supply of labour through measures such as early retirement, prolonged education, compulsory public service schemes (not necessarily military service), reduced working hours, discouragement of multiple employment;
- **on the quality front of the supply side:** training and re-training the work-force, especially the long-term unemployed, so that its skill profile corresponds to the demanded one, encouraging or even subsidising the geographical mobility of job-seekers, assisting the searching effort of job-seekers by offering mediation;
- **on the quantity front of the demand side:** keeping the job market open, scaling down job protection, so as to increase the employment chances of outsiders at the expense of insiders;

- **on the quality front of the demand side:** encourage investment in regions with particularly high unemployment, encourage/enforce the employment of disadvantaged groups of job seekers.

Of this catalogue, two kinds of interventions are of particular relevance for the group-A and group-D countries of our survey: measures that keep the price of labour low and measures that enhance the quality of labour. Both are directly related to other aspects of welfare-state reform, the first one in a trade-off logic, the second one in a double-dividend (or triple-dividend) logic.

As long as unemployment is rampant, it seems that a social-security system that is based on contributions by employers and employees has more disadvantages than advantages. Its main advantage is the strong link between individual contributions and individual entitlements. Correspondingly, its status-maintaining function is very strong. This makes for a high degree of acceptance with the better-off parts of the labour force, who are the majority in a well-functioning full-employment economy with a sufficiently differentiated wage structure. When large parts of the labour force are unemployed, status-maintenance loses importance vis-à-vis the need to provide a primary, i.e. work-, income to all or most. Thus, the advantages of a contribution-based social-security system weigh less and should be traded in against the employment-facilitating advantage of a contribution-free system. Moreover, the advantages of the contribution-based system are less obvious when large parts of the labour force have little hope of acquiring entitlements above that minimum which poverty relief programmes offer or which does not make much of a difference anyway when it comes to providing for the future. There are strong incentives, under such circumstances, to avoid contributions and retreat into informality.

These considerations would favour a tax-financed system of basic social security, which renounces employment-related contributions and thus keeps gross wages close to net wages in the all-important lower bracket of the wage-scale. For those who earn more and want to make provisions for income replacements (during retirement or temporary unemployment) above the generally available minimum, top-up schemes can be devised which are financed by individual contributions and are open to everybody, regardless of what their sources of income are. Such top-up schemes can very well be organised within the public domain. They even can, to some extent, be compulsory. Important would be that the contributions are not imposed on employers, thus becoming part of the wage bill.

Economically, it would be desirable that the state subsidise low-skilled labour beyond picking up the social-security bill. Workers would have to get a cash income which is higher than the employer's wage bill. This way, manpower would be available to the labour market at wages below the costs of subsistence, which would facilitate employment in the current situation of labour abundance. Such an effect could be achieved with a negative income tax. But this would most likely be too complicated for states which are still in the process of developing an effective and efficient tax system as it befits a market economy. However, labour-subsidizing effects can also be achieved with the provision of public goods (public meals, low-cost housing), which relieve workers' household budgets.

One might be tempted to call a system that relieves employers of their obligation to care for the social security of their personnel a relapse into unmitigated exploitation, doing away with what generations of workers have fought for all over the capitalist world. This even more so if job protection were to be eased too, as it should be under the present conditions of mass unemployment. In fact, if carried out in an isolated fashion, such a policy of labour market deregulation would not promote inclusion. It must form part of a broader package that (a) aims at overcoming the basis of exploitation and exploitability, namely abundance of (unskilled) manpower and (b) cushions the unavoidable – though not necessarily short – transition period of wide-spread extreme austerity with an affordable and sustainable policy of securing the basics. Giving priority to workers' rights might improve the situation of the employed segment of the labour force, but it would do so at the expense of the unemployed. A strategy which aims at subsidising the consumption of the latter via transfer incomes (social aid, unemployment compensation) might be an option for very rich countries. But the countries of South Eastern Europe simply cannot afford it. Institutional provisions become worthless if the necessary finance cannot be raised. Already, the countries of group A and D exhibit that discrepancy between well-intentioned welfare-state design and the dismal reality which results from simulating normalcy rather than addressing emergency.

Providing essential goods and services

There is, for the time being, no way around a situation, which subjects large parts of the South Eastern European peoples to extreme austerity. Applying OECD standards, one would have to speak of mass poverty. Under such conditions, the meaning of "social protection" is somewhat different from the conventional provision for the risks of life: old age, illness, disability, unemployment. If poverty is the unavoidable normality for large segments – possibly the majority – of the population, it is the poor who have to be protected; protected against a degree of deprivation

- that is worse than "ordinary" poverty;
- that is quite likely to occur if no counter-measures are taken, and which, in fact, is already occurring in non-negligible measure;
- but that is avoidable even under conditions of economic emergency.

It should be made sure that the poor are not excluded from certain goods and services that must be considered as "essential". This includes (a) what is necessary for unimpaired physical subsistence, i.e. an adequate diet and adequate health-care, and (b) what is necessary to establish equality of chances as regards future opportunities for economic improvement – for the ones who are now poor as well as for their children. This means, above all, universal access to high-level education, in accordance with individual learning capabilities. These "essentials" must be made available to everybody, independently of a person's or family's purchasing power. For this purpose, provision must be taken, one way or the other, out of the market. The alternatives are:

- The state provides these essentials as public goods free of charge (or for a token only) to everybody.
- The state provides them, subject to means-testing, free of charge to the poor.

- The state distributes vouchers to the poor with which they can buy the "essentials" in the market from private suppliers.

It seems that the first alternative would easily overstrain the financial capabilities of most South East European states, with negative consequences for the quantity and the quality of public goods, and hence for their function within an effective emergency policy of social protection. As reasoned below in connection with education and health-care, a targeted provision would seem superior. However, it requires a well-functioning welfare-bureaucracy, which is itself a scarce resource for the time being.

In turn, things like public low-cost meals or low-cost housing would not require much means-testing as they appeal only to those who cannot afford up-market versions of the same goods. In turn, free meals for school-children do not necessarily make a significant dent in public budgets if tax revenues and fiscal responsibilities are distributed adequately between the various levels of government.

Securing a high level of education for all

An important pillar of the two-pronged strategy suggested here is public education. It is important

- for improving people's employability and thus helping in the fight against mass unemployment,
- for the equality of chances in the all-important labour market and thus for preventing social exclusion,
- for the prospects of long-term economic development.

In addition, a broad-based, high-quality education system itself creates jobs, keeps job-seekers temporarily out of the labour market and provides a logistic basis for the public provision of essential consumption goods (e.g. meals).

Two things would be necessary to make full use of the potential of education in the fight for social inclusion: the assignment of a sizeable part of scarce budgetary resources to public education and an adjustment of the methods and contents of public education to modern requirements. Education competes with other public policy objectives for financial resources. It seems important that the sacrifices which must be made in times of extremely tight budgets are allocated to other public policy areas, worthy as they may be, and that the upgrading of education is not made subject to economic improvements.

The scarcity of public finance makes it desirable to deviate from the practice of free universal supply – in order to safeguard the principle of universality. In order to top up the financial means of the public education system, it seems justified to demand a fee from those whose income situation allows that. Completely free supply amounts in reality to a subsidy of the middle and higher income strata. The means-tested provision of public goods violates the principle of universalism on the symbolic level, which is quite important, but to the extent the economic emergency posits a trade-off between symbolic and substantial achievements, priority should be given to the latter.

In order to be effective with regard to employment creation and social inclusion, the education system would have to have a strong dimension of recurrent job-oriented training. Training for new jobs should be offered free of charge to the unemployed. This is indispensable for many people to get back into the labour market. But, of course, it does not offer – by itself – the way out of mass unemployment in the current situation of large-scale de-industrialisation.

High-quality health-care for all

Besides education, the really important item of a public-goods centred policy of social protection is health-care. Access to high-quality health-care must be considered a non-negotiable economic citizen's right. The danger in the economically hard-pressed South Eastern European countries is that this right becomes eroded by the lack of public finance. There is a growing discrepancy between formal entitlements and the chance to have them honoured if the need arises. At the same time, parallel structures of medical provision are emerging which exclude those with insufficient purchasing power.

Significant parts of the population will depend for the foreseeable future on highly subsidised provision. Who shall finance that? As was argued above, wage-related contributions are to be reserved for the higher wage brackets, at the most, as long as there is large excess supply of manpower. Thus, a large part of the finance needed has to come out of the general state budget. As with education, this requires a setting of priorities which might imply harsh consequences for other, less important, public policy objectives.

Budget constraints do put in serious danger the principle of universal provision. Therefore, consideration should be given to means-testing as a mechanism to mobilise additional resources for health-care from the better-off strata. This would be more complicated than with education, because health-care costs are too open-ended for the individual. Even private financing needs an insurance mechanism to spread the risk between relatively healthy people and the victims of treatment-intensive illness. One could think of a nation-wide health-insurance which issues entitlements to medical treatment. The poor would get these entitlements for free whereas from a certain income level onwards a progressive insurance premium would be charged. To simplify procedures, a small number of cheaper premium brackets could be introduced (with a zero premium as the lower extreme) and admittance made dependent on means-testing. Wage-related contributions could also be considered as long as they are faded in at a relatively high wage-level so as not create conflict with the promotion of employment.

For the sake of social inclusion it would be important to avoid a two-tier system, with high-quality, high-cost provision for the better-off and only "basic" provision for those who cannot afford the upper tier. For this purpose, the range of treatment offered by the public insurance system – via public or private providers – would have to be rather encompassing. Large-scale opting out of the better-off into private provision has to be avoided, perhaps by making membership in the public system compulsory. This does not necessarily exclude the possibility that some top-up services and medication are reserved for those who are able and willing to pay for them. But it would be important that this top-up segment does not include items that are essential for the state-of-the-art treatment of an illness. I.e. this segment would have to be

confined to "luxury" items such as one-bed rooms in hospitals, aesthetic surgery, upgraded tooth replacements, ayurveda weeks etc.

Pensions: Focus on old-age poverty rather than status-maintenance

Prioritising education and health-care implies reducing resources for less important public policy objectives. In the current situation of economic emergency, parts of the pension system would emerge as prime candidates for the indispensable victim role. To avoid social exclusion, a pension must certainly be paid that allows retired persons a standard of living in line with the one of the bulk of the population. That means that a benchmark is applied which is pretty low as the bulk of the population endures extreme austerity in most of these countries. Public goods, as discussed above, would be part of such an austerity solution to pensions. Anything which is above that level, and which would correspond to entitlements acquired under the old regime, would be subject to the availability of additional means once the priority objectives of public policy have been attended to. It is to be feared that this means for the foreseeable future a flat pension for all but a few whose privileges cannot be touched for political reasons. Pensioners would thus be required to fully share in the social costs of economic catastrophe. Large groups of pensioners have not been able to escape this devaluation of their entitlements anyway.

Of course, legitimacy for such cruelty can only be claimed if it is embedded in a consequent policy of what might be called high-austerity social inclusion, a policy that defends with all means a certain bottom-line of "essential" consumption.

Towards a post-emergency welfare state?

So far, priorities for social protection have been derived from the situation of mass unemployment and mass poverty that has come to characterise most countries of the Balkans. But economic emergency is neither universal nor permanent. Slovenia has fared much better than all the rest. For this country quite different considerations apply. Albania has shown high growth-rates in the past few years. At the same time, it has "discharged" a sizeable part of its surplus work force into foreign labour markets. On the other hand, the percentage of the population that has access to subsistence farming is much higher than in the other countries. There is reason to hope that mass unemployment might soon be overcome. This would create scope for social policy to go beyond the essential-bottom-line approach and pay more attention to earnings-related insurance against the risks of life. Above all then, the objective of status-maintenance over the life-cycle could step by step be applied to ever broader segments of the labour force.

Naturally, the most important component of the life-cycle smoothening function of social protection is pensions. Pensions above that minimum which is part of the essential-bottom-line approach are relevant for persons whose working income is non-trivially higher than the broad bottom-line wage (not necessarily the legal minimum wage!). To avoid moral hazard, it is important that these persons "earn" their top-up pensions, i.e. that they pay into a pension system. Which combination of pay-as-you-go and capital-funding the system applies, albeit intensively discussed all over the world, is of secondary importance. The most important

question for the South Eastern European countries who slowly grow out of the post-transition emergency concerns the source of financing. Low wages ought to be contribution-free in order to not endanger the progress of employment. That means that the "basic" pension is financed out of the government budget. An analogous reasoning can be applied to the transition from bottom-line to higher wages. It would be important to avoid a sudden big "wedge" between gross and net wage, in order to facilitate functional differentiation all over the wage scale. This purpose would be best served if the category of "employers' contributions" were avoided and contributions into the pension system paid out of that sum of money which is officially called "wage". On top of avoiding the wedge problem, this wording would strengthen the perception of pension entitlements as *part of* one's income rather than something *in addition to* it.

The reasoning on pensions can be applied in an analogous way to unemployment insurance, which also has an income-smoothening function as soon as it rises above pure subsistence-securing levels. High-quality medical attendance ought to be a core part of an essential-bottom-line strategy of protection. As such it is not a candidate for major post-emergency reforms. On the contrary, it would seem important that financing will not – for a long time to come – take on the form of a "social security tax" levied on wages, but that the considerations formulated above be held up.

The transition from an emergency to a status-preserving welfare system corresponds to the normative logic presented throughout this chapter. However, the political reality of South Eastern Europe does not stipulate this sort of evolution. In the stagnating as well as the more dynamic countries, rudimentary insurance schemes for the employed segment of the population have been kept alive while the essential-bottom-line idea, advocated here, has been widely neglected. In part, this may have to do with the difference in political clout between the employed and the unemployed sectors of the population. But it also has to do with the different capabilities of the various welfare components to raise the funds needed for their functioning. Even though employment has collapsed and wages have plummeted, the social security tax on official employment has been kept up and even increased considerably (which drove many into the "grey" economy). In contrast, the ability of the state to raise taxes has suffered much in the course of economic transition. As a consequence, the provision of essential-bottom-line goods and services had to be squeezed out of an extremely tight public budget, requiring a good dose of political heroism, while employment-related social security (inadequate as it came to be) could count on an established line of financial support.

For all countries of the region, with the exception of Slovenia, the task now would be to do what the countries of groups A and B should have done early on in the transition process: establish a robust essential-bottom-line system of social protection. The countries and semi-states of group D, who are only at the beginning of the transition process (or still in an "artificial" international protectorate situation) have the chance here to "do first things first". As experience has shown, one of the most important preconditions for the successful implementation of an essential-bottom-line strategy of social protection is an effective system of taxation. Such a taxation system must emphasise robustness and simplicity of handling, postponing considerations of consistency, distortion-free allocation and micro-justice. Another pre-

condition is the political determination to drastically reduce public expenditure for purposes that for the time being should no longer have priority.

Those countries who have gone ahead in establishing a continental European-type system of employment-related social security (Croatia, Bulgaria, Romania, Macedonia, Albania) definitely have a handicap in overcoming the fundamental problem of mass unemployment. In Albania, high economic growth rates (if they are continued!) might melt down the importance of this handicap. The other countries would be well-advised to introduce major corrections that reduce the wedge between labour costs and workers' earnings. Such a project only has a chance, if there are political elites who have a clear idea of what welfare states are basically about, what they can and should achieve in different economic contexts. It seems that, so far, an uncritical orientation towards Western European models, seasoned perhaps with a dose of neo-liberal scepticism, has guided welfare-state reform.