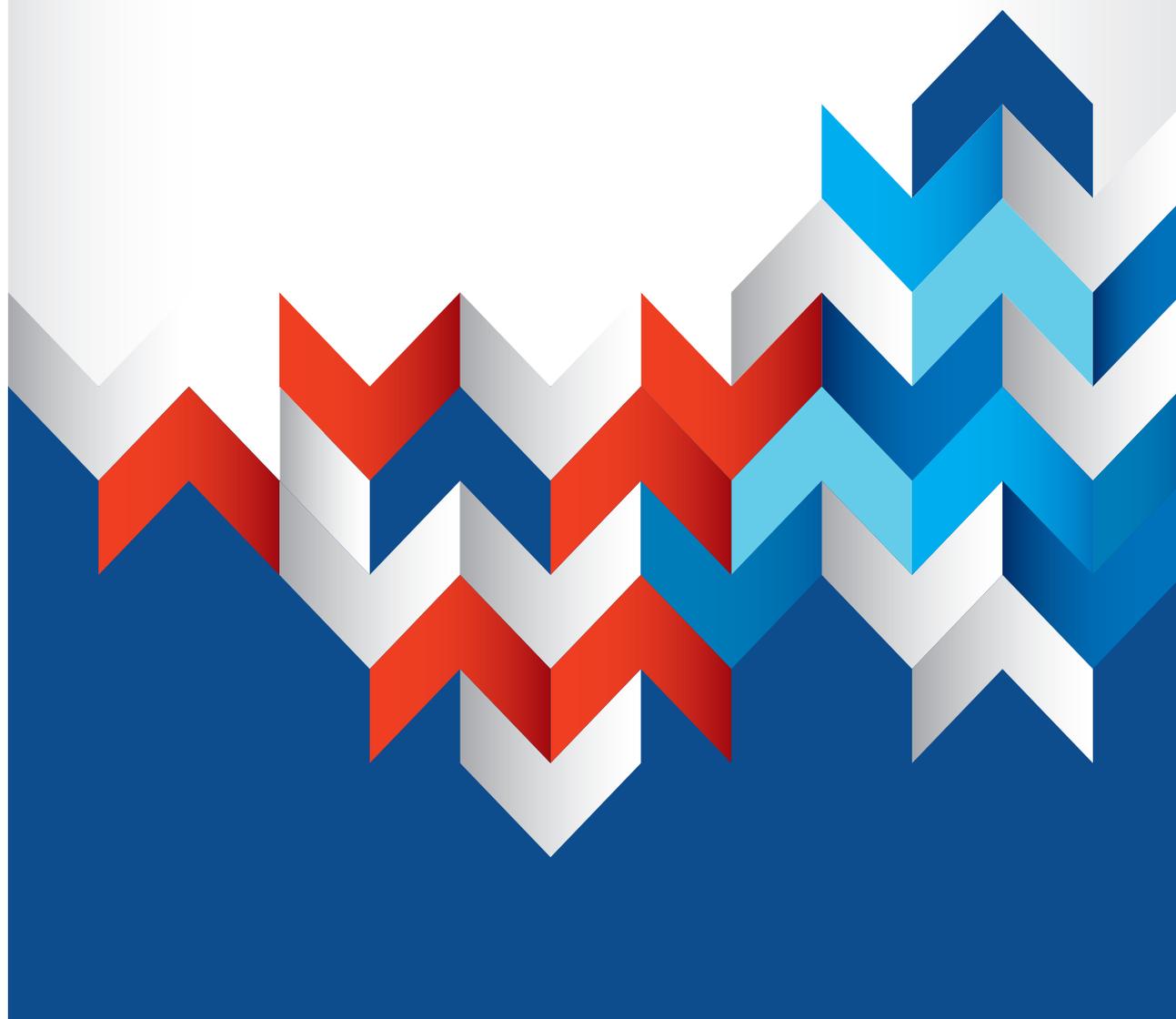




GOVERNMENT OF THE REPUBLIC OF SERBIA

# **EMPLOYMENT AND SOCIAL REFORM PROGRAMME IN THE PROCESS OF ACCESSION TO THE EUROPEAN UNION**





*Government of the Republic of Serbia*

# Employment and Social Reform Programme in the Process of Accession to the European Union

May 2016

# EMPLOYMENT AND SOCIAL REFORM PROGRAMME IN THE PROCESS OF ACCESSION TO THE EUROPEAN UNION



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SOCIAL INCLUSION AND  
POVERTY REDUCTION  
UNIT

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## EMPLOYMENT AND SOCIAL REFORM PROGRAMME

On the basis of the European Union Enlargement Strategy 2013–2014, a new process has been introduced to set and monitor the priorities in the areas of employment and social policy for accession countries – **Employment and Social Reform Programme – ESRP**.

ESRP implementation will be a strategic process, modelled after the Europe 2020 strategy followed by the Member States, which will accompany the European integration process as the key mechanism for dialogue on the Republic of Serbia's priorities in the areas of social policy and employment in the EU accession process.

In the Republic of Serbia, the ESRP development process was formally launched in September 2013, and the Programme was adopted by the Government of the Republic of Serbia in May 2016. The entire process was transparent and all national stakeholders were repeatedly consulted and invited to take an active part in the document drafting, in order to ensure its quality and representativeness, as well as the support of all social actors and social partners. The European Commission monitors the Programme implementation process at the annual level, both through annual progress reports and through thematic meetings and conferences.

The Employment and Social Reform Programme primarily covers labour market and employment, human capital and skills, social inclusion and social protection as well as the challenges in the pension system and health care. Special focus will be on youth employment, given the extremely high youth unemployment rate<sup>1</sup>.

**The implementation of this programme will require additional resources to supplement those from the budget. In addition, it is essential to ensure the alignment of the priorities and solutions contained in this and other common strategic documents of the Republic of Serbia and the European Union, such as the documents prepared under the good economic governance process<sup>2</sup> and the IPA Country Strategy Paper for Serbia.**

1 According to the 2013 Labour Force Survey, the unemployment rate among youth aged 15-24 was 47.1%.

2 A new document, namely the Economic Reform Programme, which will follow the annual cycle of developing similar programmes for Member States and the European semester, is expected to be adopted in early 2016. Every spring, the Economic and Financial Affairs Council (ECOFIN) adopts the Conclusions of the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries.



## 1. INTRODUCTION: GENERAL ECONOMIC AND SOCIAL CONTEXT

Being an EU candidate country since 1 March 2012, following the entry into force of the Stabilisation and Association Agreement on 1 September 2013 and having opened accession negotiations on 21 January 2014, the Republic of Serbia confirmed its strategic commitment to the acceleration of the European integration process.

In recent years, the overall economic situation in Serbia has been characterised by two trends. One is marked by pronounced economic growth up to 2008, and the other by a slowdown since 2008, with the Serbian economy facing a negative economic growth in some years.

External and internal imbalances and weaknesses which characterised the Serbian economy even before the crisis intensified further in the period following the onset of the crisis. The country's overall economic situation deteriorated significantly, which had an adverse impact on the social situation, negative trend of labour market indicators, poverty growth and living standards decline. The positive results of the fiscal consolidation measures undertaken during 2015 affected a decrease of external and internal imbalances and somewhat mitigated this adverse trend.

The Republic of Serbia ended the year 2015 with the estimated real economic growth of 0.8%<sup>3</sup>. Given that a real decline of 1.8% was recorded in 2014, and a slight recovery trend was observed in 2013 (economic growth of 2.6%), the Serbian economy shows no signs of stable recovery yet (negative economic growth of 1.0% was recorded in 2012).

According to the projections presented in the Fiscal Strategy for 2016, with Projections for 2017 and 2018<sup>4</sup> and the Economic Reform Programme (ERP) for 2016-2018<sup>5</sup>, an accelerated recovery path is expected, with the growth rates of 1.8%, 2.2% and 3.5%, respectively, in the next three-year period.

The Government has taken certain steps to address numerous obstacles hindering growth. Fiscal consolidation and economic recovery were set as the main objectives of the Government<sup>6</sup>. The Progress Report<sup>7</sup> adopted by the EC in November 2015 highlights the significance of sustaining fiscal consolidation and implementation of the planned reforms. A credible medium-term plan of structural reforms, together with fiscal consolidation measures represents a key precondition for the attainment of the Government's main economic policy objectives in the next three years. In November 2014, the IMF Mission reached an agreement with Serbia on a precautionary stand-by arrangement. The IMF press release<sup>8</sup> states that Serbia's new economic program seeks to lay the ground for sustainable growth and job creation over the medium term by implementing ambitious fiscal consolidation and structural reforms. Following an IMF mission in February 2016 to conduct the fourth review of the stand-by arrangement, it was concluded that performance under Serbia's economic programme had been strong and all quantitative performance targets for end-December had been met, most by large margins<sup>9</sup>.

3 Source: Ministry of Finance, Basic Macroeconomic Indicators, 24 February 2016, updated on 22 March 2016. <http://www.mfin.gov.rs/pages/article.php?id=10658>

4 <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf>

5 National Economic Reform Programme for 2016-2018, <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Economic%20Reform%20Program%202016%202018.pdf>

6 [http://www.seio.gov.rs/upload/documents/eu\\_dokumenta/godisnji\\_izvestaji\\_ek\\_o\\_napretku/serbia-progress-report14.pdf](http://www.seio.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/serbia-progress-report14.pdf)

7 [http://www.seio.gov.rs/upload/documents/eu\\_dokumenta/godisnji\\_izvestaji\\_ek\\_o\\_napretku/report\\_serbia\\_15.pdf](http://www.seio.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/report_serbia_15.pdf)

8 <http://www.imf.org/external/np/sec/pr/2014/pr14531.htm>

9 <http://www.imf.org/external/np/sec/pr/2016/pr1678.htm>

The main economic policy objectives of the Republic of Serbia are set out in the Fiscal Strategy for 2016 with Projections for 2017 and 2018<sup>10</sup>:

1. continued implementation of fiscal consolidation measures, sustaining macroeconomic stability together with reversing further debt growth;
2. strengthening the stability and resilience of the financial sector by resolving the issue of non-performing loans; and
3. removing barriers to economic growth and enhancing competitiveness by implementing comprehensive structural reforms, as well as continuing the implementation of structural reforms, especially with regard to public enterprises, and raising public sector efficiency.

On the other hand, the focus of fiscal policy objectives of the Republic of Serbia set out in the Fiscal Strategy for 2016 with Projections for 2017 and 2018 is on further strengthening tax compliance, increasing tax collection efficiency and combating the shadow economy<sup>11</sup>.

Fiscal trends at the end of 2015 show a consolidated general government deficit of 3.7% of the GDP<sup>12</sup>. Fiscal imbalance remains very high and large economic sectors require reform<sup>13</sup>. According to the projections presented in the Fiscal Strategy, with fiscal consolidation measures, the consolidated general government deficit will amount to 4.0% of the GDP in 2016, with a further decrease to 1.8% of the GP in 2017 and 2018. Without these measures, the estimated consolidated general government deficit would reach 6.5% of the GDP in 2018.

One of the fiscal policy objectives in the coming period is to reduce the public-debt-to-GDP ratio, which recorded explosive growth between 2008 and 2013. In early October 2013, the Government adopted a new set of measures aimed at public finance stabilisation and economic recovery<sup>14</sup>. The measures include changes both in the area of budget expenditures (through reducing the public sector wage bill, decreasing subsidies to public enterprises and savings on commodities and services), as well as in the area of budget revenues (primarily through VAT increase). These measures somewhat mitigated the growth trend, but the public debt level continued to grow substantially.

The central-level public debt continued to grow, reaching 73.4% of the GDP as at 31 January 2016<sup>15</sup>. In order to prevent a public debt crisis in the short term and create assumptions to discontinue further debt growth in the medium term, the Government adopted the Public Sector Reform Programme<sup>16</sup> in June 2013. This Programme set out three groups of measures: 1) reduction of discretionary budget spending and establishment of new rules for the planning of the 2014 wage bill and pensions, 2) additional savings across the public sector, 3) continuation of structural reforms, particularly completion of the restructuring process in the former socially-owned enterprises, as well as streamlining in public enterprises and public for-profit corporations.

10 <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf>

11 <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf>

12 Source: Ministry of Finance, Macroeconomic and Fiscal Data, 24 February 2016, updated on 22 March 2016. <http://www.mfin.gov.rs/pages/article.php?id=10658>

13 Also acknowledged in the 2015 Progress Report on Serbia, [http://www.seio.gov.rs/upload/documents/eu\\_dokumenta/godisnji\\_izvestaji\\_ek\\_o\\_napretku/report\\_serbia\\_15.pdf](http://www.seio.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/report_serbia_15.pdf)

14 Ministry of Finance, Macroeconomic and Fiscal Data, 24 February 2016, Table 5. Public debt of Republic of Serbia in the period 2000 – 31 January 2016. <http://www.mfin.gov.rs/UserFiles/File/dokumenti/2013/Informacija%20o%20paketu%20mera%20za%20stabilizaciju%20javnih%20finansija.pdf>

15 Ministry of Finance, Macroeconomic and Fiscal Data, 24 February 2016, Table 5. Public debt of Republic of Serbia in the period 2000 – 31 January 2016. <http://www.mfin.gov.rs/pages/article.php?id=10658>

16 [http://www.mfin.gov.rs/UserFiles/File/Reforma%20javnog%20sektora/Program%20mera%20za%20reformu%20javnog%20sektora%2003\\_07.pdf](http://www.mfin.gov.rs/UserFiles/File/Reforma%20javnog%20sektora/Program%20mera%20za%20reformu%20javnog%20sektora%2003_07.pdf)

Year-on-year inflation<sup>17</sup> dropped from 7.8% in late 2013 to 2.9% in late 2014 and to 1.9% in late 2015. Thus, the inflation remains below the target inflation tolerance band (4% ± 1.5%).

Table 1: Macroeconomic trends

	2010	2011	2012	2013	2014	2015
GDP, EUR bn	29.8	33.4	31.7	34.3	33.3	33.1
GDP, per capita, EUR	4.082	4.619	4.400	4.781	4.672	-
GDP, real growth in %	0.6	1.4	-1.0	2.6	-1.8	0.8
Inflation (CPI), $\text{oy/oy-1}$	6.5	11.0	7.8	7.8	2.9	1.9
RSD/EUR exchange rate, period average	103.0	102.0	113.1	113.1	117.3	120.7
Current account deficit, % GDP	-6.8	-10.9	-11.6	-6.1	-6.0	-4.8 <sup>18</sup>
Foreign direct investments, net % GDP	3.8	9.9	2.4	3.8	3.7	-
NBS reserves, EUR bn	10.0	12.1	10.9	11.2	9.9	10.4
Consolidated fiscal deficit, % GDP <sup>2</sup>	4.6	4.8	6.8	5.5	6.6	3.7
Public debt, % GDP <sup>19</sup>	41.8	45.4	56.2	59.6	70.4	75.5

Source: Ministry of Finance, updated on 24 February 2016, NBS, updated on 19 February 2016.

As at 1 January 2015, the population of the Republic of Serbia totalled 7,114,393<sup>20</sup>. In demographic terms, Serbia is characterised by a strong depopulation trend (in the period 2002-2012, the Republic of Serbia lost 301,000 people), low fertility<sup>21</sup>, relatively high specific mortality rates (compared to European values), high average population age (42.2 years, according to the 2011 Population Census data) and an unfavourable age structure.

The year 2014 was the twenty-third consecutive year of negative natural growth in Serbia. In relative terms, the natural growth rate per one thousand people stood at -4.9‰. The true proportions of negative population growth are evident at the local government level. In 2014, negative natural growth rates were recorded in as many as 165 cities and municipalities out of the total of 172.

**Despite the fact that the trend of increasing life expectancy at birth continued, reaching the historic maximum of 74.8 years in 2012, life span in the Republic of Serbia is five years shorter than that in the EU. In 2011, the old age dependency ratio<sup>22</sup> stood at 25.5%, with projections of reaching 36.3% in 2041.**

Rough estimates indicate the net migration loss of approximately 15,000 people per year in the period 2009–2011<sup>23</sup>. In 2011, about 227,000 internally displaced persons from AP Kosovo and Metohija were still registered in the Republic of Serbia, ranking Serbia 15th in the world and the first in Europe by the number of internally displaced persons<sup>24</sup>.

17 Measured by the consumer price index.

18 According to the NBS estimate – Key Macroeconomic Indicators, updated on 19 February 2016.

19 According to NBS – Key Macroeconomic Indicators, updated on 19 February 2016.

20 According to the estimates of the Statistical Office of the Republic of Serbia. All data for the Republic of Serbia stated excluding data for AP Kosovo and Metohija.

21 For five consecutive years, the average number of children per woman in the Republic of Serbia has been stable at between 1.40 and 1.45. Source: Centre for Demographic Research, Institute of Social Sciences.

22 Shows the number of people aged 65+ per 100 working-age people (15–64) and, in fact, indicates the country's potential to face the economic consequences of ageing.

23 Institute of Social Sciences (2013): *SEEMG Country Report – Dynamic Historical Analysis of Longer Term Migratory, Labour Market and Human Capital Processes in Serbia*.

24 UNHCR (2014): *Global Trends 2013*.

Living standards further declined in 2014. The real net wages in the first ten months of 2014 declined by -0.3%, and pensions by 0.4% relative to 2013. In absolute terms, in the same period, the average net wage amounted to EUR 378, and the average pension – EUR 203<sup>25</sup>. Despite the positive signals of the labour force surveys conducted in 2013 and 2014<sup>26</sup>, formal employment continued to decrease<sup>27</sup>, informal employment grew (the share of informal employment in total employment grew steadily, reaching 22.0% in 2014), while formal unemployment as of November 2014 declined slightly relative to the corresponding month of the preceding year<sup>28</sup>. The activity rate has been relatively stable in the past few years, while the unemployment rate has recorded a steady upward trend. Improvements in the labour market remain weak<sup>29</sup>.

Poverty remained significant, both expressed in absolute terms (the share of people whose consumption is below the threshold required to meet the basic needs – 8.6% in 2013<sup>30</sup>) and in *relative* terms (the share of people at risk of poverty stood at 25.6%<sup>31</sup> in 2014). Regardless of the methodological concept applied, the profile of the poor does not differ significantly according to the concept of absolute poverty or relative poverty. Judging by the profile of the poor, the living standards are decisively influenced by three elements: employment status, low education attainment and residence outside urban areas<sup>32</sup>.

The at-risk-of-poverty-or-social-exclusion rate (AROPE) – the key monitoring indicator for the Europe 2020 strategy, stood at 43.2% in Serbia in 2014 and was higher than in any EU Member State except Bulgaria.

The at-risk-of-poverty rate by the most frequent activity status (held for more than six months) shows that the unemployed are in the worst situation (48.7% or almost one out of two unemployed people is at risk of poverty). Employment reduces the risk of poverty considerably, but the quality of employment remains the key factor for exiting poverty (the self-employed have a significantly higher at-risk-of-poverty rate than those in dependent employment – 38.3% and 6.4% respectively). After those in dependent employment, pensioners are in the most favourable position, with the risk of poverty approximately equal to that of total employed people (14.5% compared to 14.9%). Education is a decisive factor for the economic status and the income-generating capacity; it is, therefore, not surprising that people with lower education attainment levels are at an above-average risk of poverty. In 2013, the highest at-risk-of-poverty rate was recorded among the population with primary education and below (41.8%), while the population with college or university education had the lowest at-risk-of-poverty rate (7.1%). This distribution of the population at risk of poverty by educational attainment level clearly indicates that education is worthwhile, given that the highly educated are rewarded in the labour market<sup>33</sup>.

25 Calculated according to MoF – Macroeconomic and Fiscal Data, 17 December 2014.

26 At the time of drafting this document, the most recent data available pertain to Q3 2014 [http://webzrs.stat.gov.rs/WebSite/repository/documents/00/01/55/39/RS10\\_295\\_srb-III\\_kvartal\\_2014.pdf](http://webzrs.stat.gov.rs/WebSite/repository/documents/00/01/55/39/RS10_295_srb-III_kvartal_2014.pdf)

27 At the time of drafting this document, the most recent data available pertain to Q1 2014 <http://pod2.stat.gov.rs/ObjavljenePublikacije/G2014/pdf/G20141209.pdf>

28 Decreased by 3.1% in November 2014 relative to the corresponding month of 2013 [http://www.nsz.gov.rs/live/digitalAssets/3/3041\\_bilten\\_nsz\\_novembar\\_2014.pdf](http://www.nsz.gov.rs/live/digitalAssets/3/3041_bilten_nsz_novembar_2014.pdf)

29 Also recognised in the 2014 Serbia Progress Report.

30 Center for liberal-democratic studies, Poverty in Serbia 2011, 2012 and 2013, for the Social Inclusion and Poverty Reduction Unit (2014).

31 Republic of Serbia (2014). Second National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia.

32 Irrespective of the concept applied (absolute or relative poverty), the population of Eastern and Southern Serbia has the lowest living standards, while the Belgrade population has the highest living standards. For more information, see the Second National Report on Social Inclusion and Poverty Reduction of the Government of the Republic of Serbia.

33 Republic of Serbia. (2014). Second National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia.

Even though consumption inequality measured by the Household Budget Survey (HBS) indicates that Serbia can be classified among countries with an even distribution (the Gini coefficient stood at 0.26 in 2012<sup>34</sup>), the values obtained through a comparable methodology (SILC) point to a highly pronounced problem of income distribution inequality in Serbia (Gini 0.38<sup>35</sup>). Part of the explanation can certainly be found in the fact that the share of goods and services produced for own consumption is high among the households from lower quintiles (over 12% of their total consumption), and that, according to the SILC methodology, this income is not assessed or included in the total income. In order to address this issue appropriately, further in-depth research will be necessary.

Table 2. Absolute poverty trends in Serbia, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Percentage of persons living in absolute poverty in the total population	8.8	8.3	6.1	6.9	9.2	6.8	8.8	8.6	8.9
Poverty line, RSD per month per equivalent adult	6,221	6,625	7,401	8,022	8,544	9,483	10,223	11,020	11,340

Source: HBS, SORS. For the period 2006-2010, taken from the report "Monitoring Social Inclusion in Serbia – Second amended edition", Government of the Republic of Serbia, 2012. For the period 2011-2013, according to Poverty in Serbia 2011, 2012 and 2013, Social Inclusion and Poverty Reduction Unit, CLDS, 2014.

34 Centre for Liberal Democratic Studies, Centre for Social Policy. (2014). Draft Report – Absolute Poverty in the Republic of Serbia and Trends in Measuring Poverty, commissioned by the Social Inclusion and Poverty Reduction Unit.

35 [http://webrzs.stat.gov.rs/WebSite/repository/documents/00/01/25/92/PD10\\_366\\_engl.pdf](http://webrzs.stat.gov.rs/WebSite/repository/documents/00/01/25/92/PD10_366_engl.pdf)



## 2. KEY CHALLENGES IN THE AREA OF EMPLOYMENT AND SOCIAL POLICY

### 2.1. Labour market and employment

#### 2.1.1. Introduction – general characteristics of the labour market

With respect to labour market performance, Serbia distinctly lags behind the European Union because the entire last decade was marked by “jobless growth“ and all key labour market indicators have, consequently, sustained a dramatic decline. Since the onset of the global economic crisis, the employment rate of working-age population decreased by 10 percentage points – from 54.0% in April 2008 to 44.2% in April 2012, constituting a cumulative decline in employment by more than half a million people. It is worth noting that the differences in key labour market indicators before and after 2008 reflect not only the impact of the crisis but of all other economic factors as well – the transition and privatisation processes being the most significant and now in their final phase. A lower level of unemployment growth compared to a higher level of employment decrease in this period implies that many people who no longer work substituted employment with inactivity, rather than with unemployment.

However, the trend of economic growth with a stagnating and decreasing employment, recorded in the last decade, turned into a stagnating economy featuring a significant employment rate growth since 2011, as the employment rate increased by 5 percentage points between April 2012 and October 2013. The improvement of labour market indicators was sustained after 2013; thus, in the fourth quarter of 2014 the employment rate reached 50.4%, the unemployment rate fell to 17.6%, and the activity rate of 61.2% almost recovered to its pre-crisis level<sup>36</sup>. This paradox may shed light on several key characteristics of the Serbian labour market. The factors relating to labour demand range from the duration and scope of restructuring, unfavourable business environment, to inadequate infrastructure and public investments, and high tax burden on low paid work. The factors relating to labour supply contribute to very low activity and employment rates and a considerable share of the informal labour market. With respect to this, the recent trends indicate that the population has started to respond to the long-term economic crisis by increasing its activity and, when it comes to younger generations, by becoming more involved in education. Specifically, the population responded to the challenge posed by the relatively slow, yet extended decline of the sources of available non-work income (pensions, remittances, rents, revolving credit and consumer loans, etc.) by increasing the family supply of labour, especially through informal employment, self-employment and unpaid work of contributing family workers. Furthermore, the recent improvement of indicators was also caused by the recent amendments to the Labour Law as well as intensified efforts of the Labour Inspectorate.

On the other hand, as a result of GDP stagnation and decline<sup>37</sup>, completion of the privatisation process and the essentially unfavourable business climate, waged employment in privately-owned enterprises failed to match the signs of recovery indicated by the Labour Force Survey.

36 Source: Statistical Office of the Republic of Serbia, Labour Force Survey (LFS), data for the population aged 15-64.

37 According to the estimate of the Statistical Office of the Republic of Serbia, real GDP decline by 3.6% was recorded in Q3 2014 relative to the corresponding quarter of the preceding year.

Table 3: Key labour market indicators (working-age population 15-64)

	2008		2009		2010		2011		2012		2013		2014	
	Total	Females												
Activity rate	62.7	54.4	60.6	52.8	59	50.8	59.4	50.7	60.1	51.2	61.6	53.2	61.7	53.8
Employment rate	53.7	45.3	50.4	43	47.2	40.1	45.4	38.3	45.3	38.1	47.5	40.1	49.6	42.8
Unemployment rate	14.4	16.7	16.9	18.6	20.0	21.0	23.6	24.3	24.6	25.6	23.0	24.6	19.7	20.4

Source: LFS respective years, SORS

The negative trends that will impact labour market indicators include demographic trends and population ageing. The population of Serbia decreased by about 5% between the two population censuses (2002 and 2011). The projections for the period 2011–2041 made by the Statistical Office of the Republic of Serbia indicate continued exposure of the population to demographic ageing in the next thirty years. The share of youth is low and further decreasing, while the share of the elderly is high and growing continuously. According to all the projection scenarios, decrease of the share of the working-age population (15-64) in the total population is inevitable, with the fall ranging from 3.0% to 8.2%, depending on the scenario.<sup>38</sup> Such demographic decline may formally improve the relative labour market indicators, but its essential impact on the labour market and the economic growth potential will be negative. The potential and available human capital will be reduced and the continuing demographic ageing will intensify the direct pressure on the social protection systems, in particular the pension and health insurance funds.<sup>39</sup>

Pursuant to the Law on Ministries, the competent authority for employment policy-making in Serbia is the Ministry of Labour, Employment, Veteran and Social Affairs (MoLEVSA). Active labour market policies are implemented by the National Employment Service (NES), while private employment agencies are also authorised to conduct employment affairs in accordance with the Law on Employment and Unemployment Insurance. This Law also provides for the establishment of local employment councils and the possibility of co-financing programmes and measures envisaged by local employment action plans with funds from the national budget.

The sphere of labour market and employment is regulated by the corpus of labour legislation, which has been thoroughly revised over the past decade. The Labour Law (2005), with the latest amendments from August 2014, is the key legal instrument governing the rights and obligations of employees and employers, working time, employment protection, wages, redundancies, termination of employment, severance pay, work outside an employment relationship, formation of trade unions and employer organisations and other matters. The Law on Employment and Unemployment Insurance (2009), including its latest amendments from 2010, regulates the operation of the National Employment Service, the design and implementation of active labour market policies, as well as unemployment benefits. The Law on Vocational Rehabilitation and Employment of Persons with Disabilities (2009), with its latest amendments from 2013, regulates the area of vocational rehabilitation, incentives for hiring persons with disabilities and other matters relevant to vocational rehabilitation and employment of persons with disabilities. The Law on Individual Income Tax (2001), with its latest amendments from 2014, influences wage setting.

<sup>38</sup> *Population projections of the Republic of Serbia 2011–2041*, Statistical Office of the Republic of Serbia.

<sup>39</sup> *National Employment Strategy 2011-2020*, MoLEVSA.

*The National Employment Strategy 2011-2020* provides a long-term framework for employment policy development, which is operationalised by passing and implementing the *National Employment Action Plans* on an annual basis. In compliance with the Law on Employment and Unemployment Insurance and the national employment action plans, municipal authorities adopt local employment action plans, setting the local employment policy priorities and objectives, defining and implementing local employment measures.

The National Employment Action Plan sets annual policy priorities and objectives and the implementation of active labour market policies. Active labour market policies are the key instrument for improving the functioning of the labour market through targeted support to the unemployed. The active labour market policies stipulated in the Law on Employment and Unemployment Insurance comprise job-matching services, vocational guidance and career counselling, employment and self-employment subsidies, further education and training, incentives for unemployment benefit recipients, public works and other employment promotion measures.

The 2015 National Employment Action Plan envisages the implementation of the following active labour market policies: job-matching services for jobseekers; vocational guidance and career counselling; subsidies for the employment of unemployed persons from the hard-to-employ category (youth up to 30, people over 50, redundant workers, the Roma, persons with disabilities); support for self-employment; further education and training; incentives for hiring unemployment benefit recipients; public works; active labour market policies for persons with disabilities; co-financing of active labour market programmes or policies envisaged by local employment action plans with funds from the national budget (at the request of provincial or local governments); integration of financial social assistance recipients in the labour market.

According to the National Employment Service data, active labour market policies implemented by the NES in 2013 covered 99,946 unemployed people or 12.9% of the average number of the registered unemployed<sup>40</sup>. The funds earmarked for these measures in 2013 totalled RSD 1,180,000,000 or about 0.03% of the GDP<sup>41</sup>. Employment contracts were signed by 21,932 beneficiaries, which accounted for 21.94% of the total number of persons covered by active labour market policies. Moreover, the number of hard-to-employ persons included in active labour market policies was 91,038 or 91.09% of the total number of persons covered by active labour market policies (99,946 persons). In 2013, the measures and activities aimed at stimulating employment and vocational rehabilitation of persons with disabilities, undertaken by the NES, were funded from the Budget Fund for Vocational Rehabilitation and Promotion of Employment of Persons with Disabilities, with the total amount of RSD 405,289,255.25. These funds were spent on the following three measures: vocational rehabilitation measures and activities - RSD 27,273,913.55 (6.7%), promotion of employment of persons with disabilities – RSD 360,664,226.31 (89.0%), and reimbursement of the costs of workplace adaptation for persons with disabilities employed under special conditions and reimbursement of the costs of professional support to persons with disabilities employed under special conditions – RSD 17,351,115.39 (4.3%)<sup>42</sup>. The funds earmarked for active labour market policies in the 2014 Budget Law of the Republic of Serbia were significantly lower than in the previous year and totalled RSD 600,000,000, with the additional RSD 519,000,000 earmarked for the Budget Fund for Vocational Rehabilitation and Promotion of Employment of Persons with Disabilities. However, the total coverage of persons by active labour market policies remained the same because the focus was on the intensifica-

40 Source: NES: the average number of the registered unemployed in 2013 was 774, 890.

41 The sums allocated at the annual level are presented in Table 4.

42 Report on the Implementation of the National Employment Action Plan for 2013.

tion of non-financial measures. The financial measures (internship programme, labour market training, training at employers' request, self-employment subsidies, adult functional primary education, job-creation subsidies to employers, public works, wage subsidies for PWD without work experience and PWD support measures) were very limited: 5,924 people were covered by these measures in 2014, compared to 12,517 in 2013.

The results of active labour market policies evaluation studies conducted in the Republic of Serbia in recent years may be summarised as follows: The measures aimed at active job-seeking do not produce significant net effects, their intensity is modest, they are cost-efficient and more useful for persons with lower education levels. Training programmes have long-term positive effects, and the largest net effects are delivered by training programmes at the request of specific employers. The strongest direct impact is produced by programmes providing direct employment subsidies, which are generally costly; hence, the conclusion is that recruitment would have occurred even without the financial support. Nevertheless, these measures are significant, especially in the situations of suppressed labour demand. Self-employment programmes are useful as a means of supporting and intensifying the recovery of labour supply, in particular the recovery of the activity rate and, subsequently, the employment rate as well. In line with international experiences, public works programmes render more significant effects when they are implemented as a means of labour and social activation than as a measure for promoting employability and employment, with exceptionally strong positive psychological effect on the beneficiaries.

### *2.1.2. Key challenges*

The main problems and challenges for job creation and employment growth in Serbia have been identified in relation to both labour demand and labour supply. Although it is mainly not possible to consistently separate these two sides of the labour market, this approach is useful, above all, because it allows better management of reform measures and policies aimed at job creation.

#### **Challenges relating to labour demand:**

- The anticipated large influx of the unemployed owing to the completion of the privatisation and restructuring of state-owned enterprises and the public sector.

#### **Challenges relating to labour supply:**

- High overall inactivity rate and low employment rate, accompanied by Roma exclusion from the formal labour market and the need to strengthen the role of employment policy;
- Segmented labour market and structural unemployment;
- High youth inactivity and unemployment.

##### **2.1.2.1. Challenges relating to labour demand**

The labour demand side is comprised of private and public-sector employers. Although, in the short term, private-sector demand as the key segment of the overall labour demand is determined by market conditions and economic trends, its volume and development may be influenced in the long term through the institutions that influence private-sector employers' decisions to invest, grow their businesses and create jobs. However, such measures fall outside the scope of

this programmatic document and beyond the competences of labour market institutions; therefore, in this document, they will only be outlined as an important prerequisite to be provided in order that measures identified as priorities in this document could have effect.

The aforementioned institutions are, however, competent for addressing the short-term challenge of the **anticipated large influx of the unemployed owing to the completion of the privatisation and restructuring of state-owned enterprises and the public sector**. The protracted privatisation process and uncertainty with regard to the rules, duration and outcome of bankruptcy proceedings in the past paralysed the operation of the remaining majority state-owned enterprises in the Privatisation Agency's portfolio, thus reducing their chances of survival and successful restructuring. Subsidies to these enterprises, as well as to non-corporatised public enterprises, constitute a significant budget expenditure<sup>43</sup>, since the purpose of these subsidies is to preserve the existing, artificially sustained employment, rather than to facilitate increased market-based demand for labour. The Law on Privatisation, passed in August 2014, sets 31 December 2015 as the deadline for the completion of the privatisation process. The repercussions of this Law will include a significant influx of redundant workers into the NES unemployment register and the necessity of allocating additional funds for active and passive labour market policies. The 2015 Budget Law of the Republic of Serbia provides for a significant increase of funds for active labour market policies relative to 2014 – from RSD 600,000,000 to RSD 2.8 billion. In August 2014, the Privatisation Agency's portfolio included 155 enterprises in the process of restructuring, with 127 subsidiaries and almost 54,000 employees<sup>44</sup>. In addition to the enterprises in the process of restructuring, the Agency's portfolio also includes 419 state-owned enterprises that have yet to be privatised. These enterprises employ a total of 35,536 people<sup>45</sup>. Moreover, the *2014 Pre-Accession Economic Programme* suggests the necessity of a significant rationalisation of the number of employees in public administration, which will further exacerbate the above problem. The National Economic Reform Programme (NERP) for 2015-2017 states: "In order to establish long-term sustainability of public finances the implementation of structural reforms of the public sector will accelerate, which are primarily related to: The reform of social services, the reform of public administration, the reform of enterprises in the restructuring, and of public enterprises and public corporations, the reform of public financial management, pension reform, the reform of the education system, the reform of the health care system and ensuring financial stability."<sup>46</sup> A hiring freeze in this sector was also introduced in 2014 and is to remain in effect until 31 December 2016. According to the RAD survey<sup>47</sup> data, the current total number of public sector employees, including the military and police sectors, which are not taken into account in the survey, is estimated at about 550,000. According to their profile, there are approximately 330,000 employees funded from the state budget and around 140,000 employees in public enterprises.

The second important challenge on the labour demand side is the hampered job creation due to number of regulatory obstacles, including **general aspects of the business environment, such as insufficient investment incentives and job-creation subsidies**. Although the above

43 The total government expenditures in support of state-controlled enterprises (including direct subsidies from the national budget and the local government budgets, transfers for bridging gaps in pensionable service and expenditures for servicing guaranteed debt) amounted to approximately 2.7% of the GDP in 2010, and approximately 2.3% of the GDP in 2011, according to: [http://www.fren.org.rs/sites/default/files/qm/L2\\_5.pdf](http://www.fren.org.rs/sites/default/files/qm/L2_5.pdf)

44 <http://www.privreda.gov.rs/pages/issue.php?id=9881>, accessed on 29 August 2014.

45 <http://www.privreda.gov.rs/pages/issue.php?id=9874>, accessed on 29 August 2014.

46 [http://www.mfin.gov.rs/UserFiles/File/dokumenti/2015/NERP%202015%20-%20SRPSKI%20za%20WEB%20MFIN%2018\\_%203\\_%202015.pdf](http://www.mfin.gov.rs/UserFiles/File/dokumenti/2015/NERP%202015%20-%20SRPSKI%20za%20WEB%20MFIN%2018_%203_%202015.pdf)

47 The RAD survey is an establishment survey conducted by the Statistical Office of the Republic of Serbia on the number of formally employed people in public and private sectors, excluding the military and the police.

regulatory obstacles are not within the direct mandate of the MoLEVSA, their impact is of high relevance for the stabilisation and recovery of all labour market indicators.

In Serbia, important challenges are a relatively high rate of informal employment in Serbia (about 22% for the population aged 15+ in 2014) and a substantial share of grey economy in the GDP (30.1% of the GDP, according to some findings<sup>48</sup>).

The reasons behind the widespread grey economy are fiscal, institutional, economic, regulatory and financial. Fiscal reasons also include complicated and costly tax procedures, a complex and non-transparent tax system, poorly organised, under-trained and under-equipped tax administration, poor quality of public services and a high degree of tolerance for the shadow economy. Among a broader range of factors, the most prominent ones are the high minimum wage and certain regulations governing statutory employment protection, working time, unemployment benefits and the pension system.

There are many other institutional and economic factors that contribute to the large extent of the shadow economy. Owing to low productivity, many enterprises' business models allow profit only with tax evasion. Furthermore, owing to inefficient market exit mechanisms, businesses whose operations are partially or entirely in the informal sector are encouraged to stay there. Among other causes that have a significant bearing on the extent of the shadow economy are the high administrative burden on doing business, low quality of the regulatory environment, and legal insecurity. In addition to these regulatory causes, the decision to operate informally is also affected by widespread corruption and low tax morale. The most important financial factors are the large share of cash transactions in the total volume of payments, informal sources of financing and unregistered remittances of migrant workers<sup>49</sup>.

According to an OECD analysis, based on the provisions of the 2005 Labour Law, which was in force until 2014, the employment protection legislation (EPL) index in Serbia stood at 2.4<sup>50</sup> (on a 0-6 scale), which is slightly above the current average value in the OECD countries of 2.29<sup>51</sup>, as well as in the new EU Member States – a group that is even more relevant for comparison. Although the value of the EPL index is not extreme, significant segments of the Labour Law have been identified as factors that negatively affect employers' overall demand for labour, as well as the structure of that demand. On the other hand, the relatively strong protection of existing workers reduced labour force turnover, which put the groups trying to access the labour market, especially young people, at a disadvantage<sup>52</sup>.

The amendments to the Labour Law of August 2014 addressed some of the identified problems: the legal provision obliging the employers to pay the severance pay based on each worker's total years of service was revoked and workers are now entitled to severance pay only for the years of service accrued with the current employer; the maximum duration of a fixed-term employment contract was extended from one to two years; employers and employees were given the possibility of negotiating more flexible working hours, etc. The overall business environment

48 <http://www.fren.org.rs/sites/default/files/articles/attachments/siva-ekonomija-u-srbiji-studija.pdf>

49 Ibid.

50 OECD, 2008: *Serbia: A Labour Market in Transition*. Paris, OECD.

51 OECD, 2013: Chapter 2. *Protecting Jobs, Enhancing Flexibility: A New Look at the Employment Protection Legislation*, in: OECD Employment Outlook 2013, Paris.

52 Different fiscal treatment of employment contracts and work outside an employment relationship must be taken into consideration, in order to understand the direct and hidden costs of hiring.

assessments (e.g. measured by the World Bank's Doing Business<sup>53</sup> index or the World Economic Forum's Global Competitiveness Index<sup>54</sup>) show corruption, non-enforcement of contracts, problems in obtaining building permits and inefficient competition policy to persist as problematic. Under the conditions of a relatively unfavourable business environment, subsidies were a significant mechanism for stimulating (primarily foreign) investments and job creation. The majority of the currently largest exporters, as well as a wide range of domestic-market-oriented enterprises, used these comparatively high incentives awarded by the SIEPA, the Development Fund, the National Employment Service and other state institutions<sup>55</sup>. A considerable reduction of subsidies as of the second half of 2013 was a consequence of the fiscal consolidation measures, as well as the strategic shift towards improvement of the business environment as the chief way of stimulating the economy. In the segment where these measures effectively raised the current demand for labour, regardless of their distortion effect and the potentially questionable long-term net effects<sup>56</sup>, their reduction poses an additional challenge on the labour demand side. The situation with regard to these funds has improved again as of 2015.

### 2.1.2.2. Challenges relating to labour supply

In a situation of GDP stagnation or sluggish growth combined with a marked decrease of the working-age population (demographic challenge), overcoming **high inactivity** and increasing the employment rate grow in importance in order to support employment and GDP growth in the medium and longer term. Related to this is the identification of the main obstacles to the activation of working-age, but inactive groups on the labour market, since it provides the basis for designing efficient and effective evidence-based policies aimed at employment of these groups. It is equally important to improve the population's education, skills and applicable knowledge and overcome the "skills gap" to address the problem of **structural unemployment**. With respect to this, the absence of certified life-long learning programmes and entrepreneurship support programmes (beyond the limited resources of the National Employment Service) particularly affects the unemployed, further contributing to their growing discouragement and temporary or permanent exit from the labour force. During the crisis period, people from hard-to-employ groups have been the most severely affected by job loss and the least likely to find new jobs. Employment decline has been particularly dramatic among **youth** (15-24). The exclusion of the Roma population **from the formal labour market** is already considered a traditional issue.

In view of the above, the main challenges on the labour supply side are: high overall inactivity rate, segmented labour market and structural unemployment, high youth unemployment and inactivity, and Roma exclusion from the formal labour market.

All the above-listed challenges share a common feature – their long-term character, which is the most pronounced among the unemployed. Many formerly employed persons who became unemployed remain in that status for a very long time. International experience shows that the

53 Since 2003, the *Doing Business* index has measured the costs of business regulations for companies at the global level (currently for 183 countries). According to the *Doing Business* index for 2013, Serbia was ranked 86<sup>th</sup> out of 185 countries, which was an improvement compared to 2012, when it was ranked 95<sup>th</sup>. However, this ranking is still lower than the development level measured by GDP per capita, where Serbia ranks 82<sup>nd</sup>. Also, it lags behind the majority of its regional competitors, since it ranks 18<sup>th</sup> of 24 directly comparable countries. According to the *Global Competitiveness Index*, in 2013 Serbia ranked 101<sup>st</sup> of 148 countries considered, dropping from the 95<sup>th</sup> place in 2012.

54 World Economic Forum's *Global Competitiveness Index* ranks countries.

55 According to the survey, per foreign enterprise/new job, the average value of incentives approved to date was EUR 4,693, <http://www.fren.org.rs/sites/default/files/qm/QM34srpski.pdf>

56 Although there are no available scientific evaluations of the impact of either investment incentives or job-creation subsidies, certain obvious weaknesses in their design and monitoring suggest that the deadweight effect was probably significant.

probability of finding a job decreases as the length of unemployment increases, which may result in permanent exclusion from the labour market and an increase in the risk of poverty. The share of long-term unemployment – those who have been seeking a job for 12 months or longer – in the total unemployment (15+) is extremely high and amounts to 66.5%<sup>57</sup>.

**A high overall inactivity rate** (38.8% for the population aged 15-64<sup>58</sup>) is the consequence of high inactivity of the elderly, women, youth, persons with disabilities and persons without vocational qualifications.

One of the reasons behind the high inactivity rate in Serbia is the critically unfavourable economic situation and the fact that no new jobs are being created. While the activity rate of prime-age (30-49) people (especially men) is quite high (82.6% for the group aged 30-49; 89.2% for men and 76.1% for women), the wide disparity in activity rates between this and other age groups indicates that people in Serbia enter the labour market too late and exit too early. The relatively high inactivity of members of the age group 15-30 (inactivity rate 56.7%) and those aged over 50 (inactivity rate 68.4%) is a result of the combined impact of labour market institutional arrangements and demographic factors, including population ageing and insufficient labour force mobility. Education and training constitute an additional factor for the younger age group. Owing to different regulatory and institutional obstacles, the low level of internal mobility additionally impedes moving into areas with higher job-creation potential and thus contributes to the sustained high levels of inactivity, even to its growth (especially among the elderly)<sup>59</sup>.

According to the study titled *From Inactivity to Employment*<sup>60</sup>, the principal cause of high inactivity is the joint effect of labour taxation and the social benefits system, as a result of which work does not pay for many of those inactive. Namely, “as a result of the regulations on entitlement to social benefits, the differences between work- and unemployment-related incomes are so small that they actually act as a disincentive for financial social assistance recipients to look for work”. Furthermore, inactivity also derives from discouragement and other personal and family-related reasons, as well as from cultural factors, gender relations, inaccessibility of support networks, etc.<sup>61</sup>

**The inactivity rate of the elderly** (55–64) considerably exceeds 50%. The inactivity rate of the elderly was 59.1% in the fourth quarter of 2014, which was equal to that at the beginning of the crisis (October 2008) and represented a slight improvement relative to the peak of the crisis (October 2011), when it was as high as 63.5%. The fundamental reason behind the inactivity of this group is retirement. This is particularly the case among women – pursuant to the provisions of the Pension and Disability Insurance Law effective until 2014, the full retirement requirement for women was 35 years of pensionable service, whereas for men it was 40 years. Moreover, there were no actuarial penalties for retirement before the statutory retirement age. The amendments to the Pension and Disability Insurance Law passed in 2014 raised the retirement requirements to 65 years of age and 15 years of pensionable service, or 45 years of pensionable service (for men and women). The above age requirement refers to men only, whereas women’s

57 Source: LFS, Q4 2014.

58 Source: LFS, Q4 2014.

59 <http://www.worldbank.org/content/dam/Worldbank/document/eca/Serbia/rs-jobs-rezime.pdf>

60 Arandarenko, M., Žarković-Rakić, J., Vladislavljević, M. (2012). *From Inactivity to Employment: analysis of public policy impacts and factors affecting inactivity – opportunities for activity and employment increase in Serbia*, Belgrade, FREN.

61 Arandarenko, M., Žarković-Rakić, J., Vladislavljević, M. (2012). *From Inactivity to Employment: analysis of public policy impacts and factors affecting inactivity – opportunities for activity and employment increase in Serbia*, Belgrade, FREN, p. 15.

retirement age (with the requirement of at least 15 years of pensionable service) gradually increases by 6 months every year until 2020 (to reach 60 years and 6 months in 2020) and then by 2 months per year until 2031 (to reach 64 years and 10 months in 2031). In addition, the amendments introduced penalties for retirement before the statutory retirement age – a deduction of 0.34% for every month short of the statutory age. The second group of inactive persons of this age are workers who were laid off in the process of privatisation and restructuring owing to redundancy. They are inactive because they feel discouraged and have no hope of finding another job.

At 46.7%, the **inactivity rate of working-age women** is higher than that of men by about 15 percentage points. At the peak of the crisis, in October 2011, this rate came close to 50.0%. Women's inactivity in Serbia reflects unpaid work in the household, inadequate support to women in reconciling work and family responsibilities, employers' discriminatory treatment of young women, in particular those without children, the existing wage gap<sup>62</sup>, lower statutory retirement age, as well as the existence of a statutory minimum social insurance contributions base, which discourages formal part-time work – an option more commonly used by women with family responsibilities in other countries. The inactivity of women strongly relates to the fact that they take care of children, whereas the determinants of inactivity among women who do not have children are: low education level, lack of work experience and availability of household income<sup>63</sup>. Women whose labour market inactivity derives from family obligations typically have a very unfavourable educational profile.

**The inactivity rate of persons with disability** was 69.0%, while their employment and unemployment rates were 26.9% and 13.3%, respectively (in 2007)<sup>64</sup>. Despite the progress achieved since the adoption of the Law on Vocational Rehabilitation and Employment of Persons with Disabilities in 2009, most persons with disabilities remain completely outside the labour market. Their inactivity is a consequence of their discouragement, often caused by employers' prejudices and the lack of willingness to adapt the working environment to the needs of persons with disabilities. Furthermore, the causes of low activity also include the unfavourable educational profile and lack of work experience of this population group.

**The inactivity rate of working-age persons with lower education levels** was 58.8%, which was approximately three times that of the highly educated population (17.7%)<sup>65</sup>. The lack of education hinders the job finding process for members of this group, effectively leading them into inactivity resulting from their discouragement. The coverage of these persons by active labour market policies, such as public works, "second chance" programmes and the like, is insufficient to stimulate more sustained activation on their part.

The second group of problems relating to labour supply, as suggested above, includes the **segmented labour market and structural unemployment**. In the previous period (2002-2012), the Republic of Serbia had very high employment elasticity, which indicates a higher decline in employment than in the GDP. Such negative trends can largely be explained by the **labour market segmentation**. More specifically, a part of the employed, most commonly in the public sector and some large enterprises, has a high level of job security, better working conditions and

62 Which amounts to 11% for the same work of women relative to men, according to: <http://www.fren.org.rs/sites/default/files/Gender%20pay%20gap%20in%20the%20Western%20balkan%20countries.pdf>

63 Arandarenko, M., Žarković-Rakić, J., Vladislavljević, M. (2012). From Inactivity to Employment: analysis of public policy impacts and factors affecting inactivity – opportunities for activity and employment increase in Serbia, Belgrade, FREN, p. 37.

64 Source: Living Standards Measurement Survey, 2007, Statistical Office of the Republic of Serbia.

65 Source: LFS, Q4 2014.

higher wages; this part of the labour market responded to the crisis as expected – by wage reduction and a delayed adjustment of the employment level to the GDP decline. The second part of the labour market, the so-called secondary labour market, characterised for the most part by flexible employment contracts in the private sector, the self-employed and those employed in the grey economy, adjusted to the conditions of the recession much faster and to a greater degree. Therefore, due to constraints to laying off persons with secure employment, the labour market adapted to the impacts of the crisis by a disproportionately quicker dismissal of those working “on the margins” or by their transfer into the grey economy.

The fundamental differences between the public and private sectors, from the aspect of the advantages of working in the public sector, include better working conditions, employers’ adherence to regulations, more rights derived from collective agreements, higher wages, working hours and the absence of informal labour. Work in the grey economy is typically associated with low wages and low productivity, low levels of occupational safety, poor working conditions without paid social insurance. The possibility of job loss is higher among the informally employed than the formally employed due to absence of formal employment contracts and the consequent absence of employers’ obligations to adhere to the Labour Law in case of dismissal, as shown by the LFS data (in the period 2009-2011, the share of the informally employed in the total number of the employed fell by about 10 percentage points – 21.4% and 11.8%, respectively). According to the Survey (fourth quarter 2014), the scale of informal employment is high, with 24.42% of the population aged over 15 working in the grey economy. In addition to direct negative effects on persons employed in the grey economy (perpetuation and deepening of poverty and social exclusion), this type of work has multiple adverse direct and indirect consequences for the entire economy. Firstly, it causes direct damage to public finances and often poses a threat to people’s safety and public health. Secondly, it is a symptom of institutions’ weakness and an unfavourable business environment, which hinders long-term growth. On the labour demand side, the causes of work in the informal economy have been outlined above, whereas on the labour supply side, the productivity of workers with low qualifications and those working in labour-intensive, low-wage sectors is low and, for many of them, wages at which “work hardly pays off” are not acceptable compared to alternatives such as social assistance or activity in the informal economy. All of this indicates the need to reduce labour market duality, i.e. to equalise the position of all workers. The Labour Force Survey results also show an “unfavourable” change in the structure of employees by the type of ownership. Since the onset of the crisis, the number of workers employed in the private sector decreased by 3.5 percentage points (from 56.3% in 2008 to 52.8% in 2013), whereas the number of those employed in the state sector increased by 4.4 percentage points (from 41.4%<sup>66</sup> in 2008 to 45.8% in 2013), which corroborates the above remarks about the differences between the public and private sectors. It should also be noted that persons who are disadvantaged on multiple grounds – e.g. uneducated women in rural regions (disadvantaged on the grounds of gender, education and geographic location) – are at an exceptionally high risk of vulnerability (not only in periods of recession).

The segmentation of the Serbian labour market is also reflected in **regional disparities** in terms of the key labour market indicators, among which the most prominent is the unemployment rate, ranging from 22.6% in the Southern and Eastern Serbia Region to 17.6% in the Belgrade Region (2014). Regional disparities are also reflected in the structure of workers by their employment status, where the share of persons in waged employment is the highest in the Belgrade Region (82.3%), and the lowest in the Šumadija and Western Serbia Region (53.1%). The proportion of

<sup>66</sup> The data for 2008 include employees in the state and socially-owned sectors.

unpaid family workers (in vulnerable employment) is consistent with this pattern; they are included in the number of those working in the grey economy and their share in the Šumadija and Western Serbia Region is 17.6%, compared to only 1.4% in the Belgrade Region. The reasons behind the considerable regional disparities are, above all, capital and labour mobility, wage levels and the predominant field of economic activity in the region. In Serbia, there is a tendency of high concentration of economic activity in Belgrade, with relatively low country-wide labour force mobility. Moreover, the Belgrade Region is in a more favourable position compared to the other regions due to the higher concentration of service sector businesses, which were less affected by the crisis. Wage levels also vary significantly by regions – the net average wage in the Belgrade Region in June 2014 was approximately 24.1% higher than the national average, while the net wage in the Šumadija and Western Serbia Region was 15.9% below the national average.

The rise of unemployment in Serbia is not an outcome of workers' decision to change their jobs or quit working – frictional unemployment is usually a short-term, standard phenomenon in the labour market. In addition to the problem of the insufficient number of new jobs compared to the supply of labour force, there are also areas with demand for labour, but with a shortage of adequate supply. The problem of **structural unemployment** in Serbia is evident in the Survey data on long-term unemployment (rate of 12.8% for the population aged over 15) and on the unemployed broken down by education levels. According to the Survey data<sup>67</sup>, unemployment is the most common among people with secondary education, since about two thirds of all unemployed completed secondary education – 320,032 people (64.4%). There are approximately 75,100 people (about 15.0% of all unemployed) with no education and with low education levels. These data illustrate that people with inadequate occupations are at a disadvantage when looking for work and confirm the inadequate focus of the primary and secondary education on the development of key competencies and practical occupational skills. Consequently, the educational system does not facilitate the acquisition of practical skills relevant in the labour market. The problem is also reflected with respect to occupations that are highly demanded by employers, yet there is no relevant occupational profile or students are not interested in training in certain occupations even when a job is guaranteed (usually skilled trades or narrowly specialised occupations).

An analysis of the Labour Force Survey (LFS) results in terms of the age structure gives rise to the conclusion that youth (15-24) are the only major demographic group that played virtually no part in the labour market recovery in the past two years. The traditionally **high youth unemployment** (41.9% for the 15-24 age group in the fourth quarter of 2014) has been exacerbated with the onset of the economic crisis. The records of the National Employment Service<sup>68</sup> show a large number of unemployed youth with no qualifications (19.16% of the 15-29 age group), while more than a half of all unemployed youth (58.68% of the 15-29 age group) have secondary education. This means that youth do not have the knowledge and skills needed by the employers, i.e. that the education system outcomes are not aligned with the labour market needs. Out of the 196,260 unemployed youth (aged 15-29) registered with the National Employment Service, 37,598 have no qualifications or are unqualified (19.16%), while 115,171 (58.68%) have secondary education. Of particular concern is the long-term nature of youth employment, given that 54.03% of registered unemployed youth have been seeking work for longer than one year. As a result, their knowledge becomes outdated and the likelihood of them becoming employed decreases as the length of their unemployment increases, which could potentially lead to their permanent exclusion from the labour market. Unable to get their first job owing to the dire eco-

<sup>67</sup> Labour Force Survey, Q4 2014.

<sup>68</sup>

conomic situation, many young people in Serbia decide to pursue further education. Nevertheless, of major concern is the proportion of unemployed youth who are, at the same time, not in education or training (the NEET rate<sup>69</sup>), which totalled 19.7% for the age group 15-24 in the fourth quarter of 2014. The principal reason for the inactivity of this category is either discouragement or disinterest in work if some other source of income is available i.e. it depends on the household income level. Discouragement is the consequence of the little likelihood of finding a job given the high youth unemployment rate. In addition, many inactive youth have neither work experience nor practical skills and being trapped in long-term unemployment further diminishes their prospects of activation and employment. The social assistance system is not conducive to activation and there is also a lack of flexible jobs that could be reconciled with education, which is further accentuated by the existence of a statutory minimum social insurance contributions base. An additional problem is the large number of youth (15-24) in informal employment (according to the Labour Force Survey, 41.9% of all employed youth were employed informally in the fourth quarter of 2014).

Among hard-to-employ categories, **the Roma are the only ethnic group that is almost entirely excluded from the formal labour market**<sup>70</sup>. The issue of their inclusion in the formal labour market is inextricably linked with their emancipation in the spheres of education, housing and participation in public affairs and thus requires patient and systematic efforts and considerable resources. The number of persons who declared themselves Roma in the 2011 Population Census was 147,604 or 2.05% of the total population of the Republic of Serbia. On the National Employment Service unemployment register, there are 21,791 Roma<sup>71</sup> (10,053 women). The fact that the majority of them have no education or only primary education<sup>72</sup>, while only 88 people have college or university education, poses a great problem. A high percentage of early school leaving is also characteristic for the Roma population (only 64% of children from Roma settlements complete primary school in time, and only 22% attend secondary school<sup>73</sup>), as well as the lack of necessary skills, knowledge and work experience and prevailing work in the informal economy. Furthermore, they are largely dependent on social benefits<sup>74</sup>.

In addition to the above challenges, it is essential to strengthen the role of employment policy. The absence of a comprehensive economic development strategy and the links between institutions sharing the common task of employment policy implementation contribute to insufficient importance of employment policy, as do the insufficient budget funds earmarked for active labour market polices. In addition, it is necessary to reorganise the National Employment Service, as well as to improve the system for evidence-based employment policy planning.

The long-term framework and objectives of Serbia's employment policy were set at the beginning of this decade with the adoption of the National Employment Strategy 2011–2020. However, the issue of employment is also addressed by other strategies, but there is no synergy between them, nor are their outcomes elaborated in terms of their impact on employment and their links to the National Employment Strategy. The decisive precondition for effectiveness of

69 Not in education, employment or training.

70 Serbia 2012 Progress Report, [http://ec.europa.eu/enlargement/pdf/key\\_documents/2012/package/sr\\_rapport\\_2012\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/sr_rapport_2012_en.pdf)

71 Source: NES, 31. 12. 2014.

72 21,255 people.

73 Statistical Office of the Republic of Serbia and UNICEF. (2014). *2014 Serbia Multiple Cluster Indicator Survey and 2014 Serbia Roma Settlements Multiple Indicator Cluster Survey, Final results*. Belgrade, Serbia: Statistical Office of the Republic of Serbia and UNICEF.

74 According to the 2012 Synthesis Report on the Operation of Centres for Social Work in Serbia, approximately 59,000 Roma are beneficiaries of centres for social work, while approximately 48,000 of them receive some type of financial social assistance (about 65% of the total number of recipients and above 30% of the total Roma population).

the Serbian employment policy, even more so than in other countries, is the requirement for the employment policy to become an integral part of an integrated approach to addressing various labour supply and demand factors which influence the situation in the labour market, all with a view to connecting all the approaches implemented. However, the employment policy, as currently designed and implemented in Serbia, is narrow in scope and largely isolated from the Government's more comprehensive economic and fiscal measures – in practice, it is limited to updating certain rules regarding employment and dismissal, to job matching and counselling services provided by the National Employment Service, as well as to a number of small-scale active labour market programmes and policies targeting certain population categories. Coordination of the employment strategy and policy with the appropriate umbrella economic strategies and policies at the national level remains a great challenge. The inclusion of local communities in employment policy implementation through local employment action plans and local budget funds for employment promotion is still in the early stages and requires continuous support.

The National Employment Strategy proposes a new employment policy direction benefiting active labour market policies by increasing their budget funding from 0.1% of the GDP in 2010 to 0.4% in 2013 and 0.5% in 2020. However, these projections were not integrated in the national budget in practice and the funds remained at the same level of 0.1% GDP or were reduced. As a consequence of the systematic discrepancy between the originally planned and actually allocated funds, certain measures envisaged under the NEAP have not been implemented since 2012.

Table 4. Allocations for active labour market policies<sup>75</sup>

	2009	2010	2011	2012	2013	2014
Amount in RSD	3,500,000,000	3,700,000,000	5,550,000,000*	3,400,000,000	1,180,000,000	600,000,000
Percentage of GDP	0.12%	0.12%	0.16%	0.09%	0.03%	0.015%

\*In 2011, the annual budget for active labour market policies in the amount of RSD 3,900,000,000 was increased by additional RSD 1,650,000,000 of unspent unemployment insurance contributions.

Given the number of the unemployed registered with the NES and the level of current allocations for active labour market policies, they can have only a limited effect.

In the Republic of Serbia, as in other transition economies, the effectiveness of labour market measures largely depends on the wider labour market and macroeconomic contexts they are implemented in (O'Leary et al., 2001). This fact supports the gradual approach to policy-making on the basis of ongoing evaluation and adjustment of measures. Consequently, it is essential to improve the conditions in which data are collected and used for planning of activities and distribution of public funds. In the context of *ex post* monitoring and evaluation of the impact of active labour market policies, as many as eight evaluations were published between 2009 and 2012, covering the most significant active labour market policies, except job-matching and counselling services provided by the NES<sup>76</sup>. However, all these evaluations have been con-

75 The ratio of allocations for active labour market policies to the gross domestic product (GDP) is calculated on the basis of the Statistical Office of the Republic of Serbia's adjusted GDP data in line with the new methodology of national accounts – 2010 ESA. Statistical release *Annual gross domestic product in the Republic of Serbia, 1995–2013 – According to 2010 ESA (NR-R)*, Statistical Office of the Republic of Serbia.

76 Specifically: *On-the-job training and The First Chance* schemes (ILO, 2010), evaluation of effects of the *Severance to Job* programme (Nojković, Vujić, Arandarenko, 2010), process-based evaluation of the public works programme (Social Inclusion and Poverty Reduction Unit, 2010), impact assessment of job clubs, labour market training and job creation subsidies (EUNES, 2011), performance monitoring of active labour market policies for hard-to-employ youth (*Youth Employment and Migration* project, 2012), impact assessment of *Youth Employment and Migration* (Arandarenko, 2012), impact assessment of active labour market policies (EUNES, 2012) and the evaluation of cost-effectiveness of *The First Chance* scheme and job creation subsidies (NES, 2012).

ducted with the support of Technical Assistance projects, while the need to also conduct *ex ante* evaluations of planned measures has yet to be addressed. As regards labour market trends forecasting, the same projects have so far supported the publication of several annual reports on the results of the employers' survey on occupations needed. Still, these surveys identify only employers' needs in a current year with projections for the following year. It is very difficult to forecast long-term labour demand under the conditions of high uncertainty and risks associated with global and regional crises, as well as those related to domestic factors, both economic and political<sup>77</sup>.

## 2.2. Human capital and skills

### 2.2.1. Introduction

The state of affairs regarding human capital and skills in Serbia does not meet the social and economic needs. The lack of qualifications and key competencies restricts employability to low-skill, low-wage jobs.

The Strategy and Policy of the Industrial Development of the Republic of Serbia 2011-2020 recognise the importance of establishing an educational system whose outcomes would match the needs of the economy, as well as the need to create a strong link between employers, educational institutions, scientific institutions in relevant areas and the labour market. Such links are essential in order to ensure that education meets the employers' needs for relevant professional competencies and is adjusted to the level of the industry's technological development. The Strategy sets five key export sectors until 2020: food industry, transport equipment industry, information and communication technology (ICT), metal industry and pharmaceutical industry.

Aiming to alleviate this problem, the National Employment Service carries out annual employer surveys to collect information on the employers' needs for occupations, qualifications, knowledge and skills of the workers they intend to hire. Based on the survey results, measures, which are predominantly educational, are designed with the purpose of filling the qualifications gap. In 2013, a smaller number of enterprises noted the problems with recruitment of new workers in terms of finding persons with adequate qualifications. Broken down by activity macro-sectors, three quarters of enterprises indicating problems are concentrated in three macro-sectors: manufacturing industry – with 40.5% of the total number of enterprises reporting problems, trade – with 16.9%, and transport – with 16.2%. With respect to the regional breakdown, most recruitment-related problems were recorded in the Belgrade Region. In terms of enterprise size, small enterprises encountered the most problems when hiring new workers. Based on the survey results, five occupations with the highest net employment rate (regardless of the group of occupations) were identified. In 2014, these were: textile sewers, retail sellers, couriers, delivery persons and bell boys, electrical engineers and gas welders. The highest net employment rate in 2015 is expected for the following occupations: retail sellers, textile sewers, simple occupations, personal and property security workers and trade and trade-related occupations.

The division of jurisdiction among central, provincial and local authorities varies depending on the level of education and there is no adequate coordination and synergy in their work: at the level of pre-school education, local authorities have considerably more responsibilities, while the

<sup>77</sup> Arandarenko, M., Bartlett, W. (2012). Labour Market and Skills in the Western Balkans, FREN, Beograd, p. 38.

central level is not sufficiently involved; at the level of primary and secondary education, central authorities enjoy a much wider scope of responsibilities, while the participation of local authorities is insufficient, with schools having only token autonomy; at the level of tertiary education, universities enjoy a high degree of autonomy, which is, however, inadequately regulated. Neither central nor local authorities are sufficiently involved in adult education or life-long learning promotion. Numerous institutions dealing with adult education (workers' and people's colleges) in the past have stopped working, and new institutions of this kind have not been set up yet.

Public institutions prevail at the pre-tertiary education levels, whereas an extensive network of private education providers has evolved at the tertiary level. Education system management is mostly administrative, while the quality assurance system is incomplete and not fully functional. Annual expenditures on education in the Republic of Serbia are regularly monitored at the level of public expenditures only, and the overall estimated budget allocations for education in Serbia in 2013 amounted to around 3.6% of GDP<sup>78</sup>. Using the EU methodology, the estimated expenditures on education at the level of the Republic of Serbia in 2012 were about 5.27% of GDP<sup>79</sup>, which was close to the average allocations in the EU-27 in the same year – 5.26% of GDP (these expenditures include public and private expenditures on education).

The educational system is chiefly limited to formal education<sup>80</sup>, while non-formal education, informal education and life-long learning are insufficiently recognised and used as an instrument for the development of human capital and skills, despite the significant initiatives launched by the Ministry of Youth and Sports. The Ministry of Education, Science and Technological Development, in cooperation with the Institute for the Improvement of Education and other social partners, launched the development of a concept of prior learning recognition, which will be presented to the general public in the coming period. The setting up of the comprehensive system of vocational guidance, career counselling and guidance has just been started (for the time being, the system is introduced in primary schools and within the functions of the National Employment Service).

Education at all levels is still mainly focused on the transfer of academic knowledge; however, it can be observed that a substantial number of youth coming out of the education system have insufficiently developed key competencies, essential for their active participation in society and the labour market, as well as for continuous learning and professional advancement. Furthermore, the educational system is faced with a negative demographic trend, causing the number of students to decrease continually (at an annual rate of about 2%). In contrast to the shrinking number of students, the size of the teaching staff is growing, thus reducing the educational system efficiency. This reduction of the student-teacher ratio can be used as an opportunity to improve education relevance and quality in order for youth to develop key competencies. On the other hand, school capacities could be used for life-long learning development, with adequate training provided to teachers in working with adults.

The educational system is not sufficiently inclusive – its capacities to address the educational needs of various vulnerable groups are inadequate, as are the affirmative measures<sup>81</sup> for en-

78 Ministry of Finance of the Republic of Serbia (MoF), public expenditures by functional classification, an estimate for 2013.

79 Government of the Republic of Serbia, Second National Report on Social Inclusion and Poverty Reduction, 2014.

80 Formal education comprises pre-school education (ISCED 0), which is not compulsory (except the Pre-school Preparatory Programme, delivered in the year preceding the start of primary education), compulsory primary education (ISCED 1 and 2), various secondary education programmes (ISCED 3) and higher education (ISCED 5, 6 and 7, EQF 6, 7 and 8), whereas post-secondary non-tertiary education (ISCED 4) is insufficiently developed.

81 Affirmative measures targeting the Roma pupils and students and persons with disability are in place.

rolment of pupils and students from families with lower socio-economic status. Enrolment in secondary schools and higher educational levels is based almost exclusively on previous academic performance and the performance at the school leaving/entrance examination, which is, at the same time, the principal criterion for the award of financial support to pupils and students (student loans and scholarships).

The reform initiatives in the formal pre-university education, launched since the year 2000, have been short-lived, strategically asynchronous and partial, and very often remained unfinished. The influence of partial and incomplete changes has resulted in insufficient internal coherence of the formal pre-university education system.

At the higher education level, the Bologna Process is entering its eighth year of implementation, but its implementation was poorly rated at the 2012 Ministerial Conference in Bucharest<sup>82</sup>. The implementation of the Bologna Declaration was also assessed as *poor* by other stakeholders, including students, teachers and the labour market<sup>83</sup>.

The previous Government of the Republic of Serbia adopted the Strategy for the Development of Education in Serbia until 2020 (SDES 2020), which should ensure a coherent framework for future reform initiatives at all education levels and make the formal education system more flexible and thus more open for adults. The Government endorsed the action plans for the Strategy implementation on 31 January 2015, thus creating preconditions for more systematic and consistent reform initiatives. The fact that the action plans were adopted with a three-year delay points to the need to improve strategy implementation capacities.

### 2.2.2. Key challenges in the area of human capital and skills

*The first group of challenges* includes the **low education level of the population over 15 and the existence of significant regional and social disparities regarding education levels:**

**Low education level of the population over 15.** According to the 2011 Population Census data (SORS, 2013), about 35% of the population over 15 has completed only eight years' primary education or below. Lack of qualifications in this population is frequently accompanied by poverty, inactivity and/or long-term unemployment, low health status and long-lasting dependence on various types of social support. On the other hand, about 25% of the population aged 30-34 has higher education (ISCED level 5 and above), which constitutes an improvement relative to prior years. Higher education relevance is a separate issue.

**Existence of significant regional and social disparities regarding education levels.** According to the 2011 Population Census, in urban areas, about 23% of the people have completed higher education and about 23% – primary education or below. In non-urban areas, only 6% have completed higher education and about 51% – primary education or below. Comparisons between different administrative districts in Serbia shed new light on the high regional disparities in terms of the population's education levels and these correspond to disparities in the economic development levels of the regions.

82 The ministerial conference in Bucharest 2012 rated the implementation of the Bologna Process in Serbia at 3.11 on a scale of 1 to 5.

83 The survey conducted within the framework of TEMPUS Careers project, <http://www.careers.ac.rs/documents-download/finish/80-univerzitet-u-beogradu/195-careers-istrazivanje-info-za-javnost.html>.

The percentages of men and women with higher education are similar (about 16%), but the proportion of women with primary education or below is somewhat higher (39% compared to 29%).

A comparison of education levels among various ethnic communities also indicates substantial differences – for instance, 87% of the Roma have primary education or below, while fewer than 1% have higher education.<sup>84</sup>

According to the 2011 Population Census, the educational profile of persons with disabilities is unfavourable: 52.7% of the persons with disabilities aged over 15 have completed primary education or below, whereas only 6.5% have higher education. These differences further increase when observing data at the regional level.<sup>85</sup>

*The second group of challenges* includes **poor quality and low relevance of all levels of education**, resulting in insufficiently developed key competencies of youth, while the poorly developed life-long learning system hinders skills enhancement after the completion of formal education.

**There are no reliable data on the quality of pre-school education, but there are indications that the function of pre-school education is primarily social, rather than educational.** In line with the decades-long practice, the dominant function of pre-school education is limited to the social function (provision of childcare to employed parents). At the same time, the educational function and the significance of pre-school education for the development of human capital and social inclusion have not been sufficiently exploited. The quality of the existing pre-school programmes varies and does not adequately support early childhood development and learning, in particular when it comes to children from vulnerable groups<sup>86</sup>. Pre-school institutions are not inclusive enough and do not respond adequately to families' needs. They are not open to involving families actively in their work<sup>87</sup>.

**The quality and relevance of primary and secondary education are at a lower level compared to most EU countries.** Students finishing primary and secondary education in Serbia have considerably lower key competency levels compared to their peers from the EU Member States. The PISA 2012 survey shows that fifteen-year-olds educated in Serbia have considerably lower levels of reading, mathematical and scientific literacy than their peers from the OECD countries and the EU Member States (the gap corresponds to 1.5 years of schooling). Also, the PISA results indicate that one year of schooling in Serbia has a lower impact on the development of these competencies than in the OECD countries<sup>88</sup>. In addition, between 30% and 40% of students in Serbia are categorised as “functionally illiterate”, which is twice as many as the EU average<sup>89</sup>, and the share would be even higher if those who left school before reaching ISCED level 3 were taken into account<sup>90</sup>. The share of functionally illiterate students is much higher

84 SORS, 2011 Population Census.

85 SORS, 2011 Population Census.

86 Strategy for the Development of Education in Serbia until 2020

87 Strategy for the Development of Education in Serbia until 2020

88 Pavlović Babić, D. and Baucal, A. (2013). *PISA 2012 first results: Inspire me, Support me*. Belgrade: Institute for Psychology

89 Ibid. – in the reading literacy domain, about 33% of fifteen-year-olds are functionally illiterate, in the mathematical literacy domain – 39%, and in the scientific literacy – about 35%.

90 Since the PISA survey examines only the students aged 15 who are included in the education system at the time of the assessment, this means that PISA does not offer information on the competencies of those students who have dropped out of education before the age of 15. If one assumes that these students (up to 15% according to some estimates) would most probably fall into the category of “functionally illiterate”, the percentage of the functionally illiterate would be higher than estimated on the basis of PISA results and could range between 40% and 50%.

in the poorest group of students and ranges between 60% and 75%<sup>91</sup>. In view of the existing studies, it may be assumed that the youth who have not attained the level of functional literacy will experience significant difficulties with respect to their future education and employability.

In addition to poor quality, secondary education is not adapted to the needs of the economy and the labour market, which reduces its social relevance. Secondary education (except in the case of a number of pilot curricula/programmes (56) which have been mainstreamed in secondary vocational education – about 25% of the occupational profiles in which students are enrolled) is mostly focused on acquisition of academic and vocational knowledge, and not enough on development of key competencies and practical occupational skills.<sup>92</sup> The educational system does not enable young people to acquire practical skills that are relevant in the labour market<sup>93</sup>. The consequence is the very high youth unemployment (about 50%) and increased costs borne by the employers when hiring young people.

**Insufficient quality of higher education.** Higher education courses are highly diversified, which is a positive result of higher education liberalisation. However, higher education liberalisation has not been adequately accompanied by the development of a quality assurance system. The existing course accreditation system is mainly focused on the provision of the requisite resources for course delivery and fails to ensure high quality of the courses.

A single National Qualifications Framework (NQF) has not been developed and coordination among different systems and education levels is missing. The NQF for levels 6-8 has been adopted, while the NQF for levels 1-5 has been prepared and is under implementation. The procedure for the validation of degrees attained abroad is administratively complicated, costly and based on course contents rather than on the qualifications framework and the courses outcomes. As of 1 October, the ENIC/NARIC centre for the recognition of degrees attained abroad for employment purposes became operational.

Student mobility is recognised in the legislation, but hindered in practice owing to the absence of effective implementation mechanisms. Reliable information on graduates' competencies is not available. Yet, there is a wide consensus that the outcomes of the existing courses are largely inconsistent with society's needs<sup>94</sup>. Employers subscribe to this view – their perception is that graduates of the courses developed as part of the Bologna Process lack the key competencies that employers expect<sup>95</sup>. Furthermore, the efficiency of studies is relatively low, the average duration of studies for four-year courses being 6-7 years<sup>96</sup>.

**Low availability of quality life-long learning programmes and low participation in life-long learning.** In 2011, only 16.5% of adults aged 25-64 participated in education programmes, which is considerably lower than the average for EU Member States, where about 41% of adults participate in education.<sup>97</sup> The main causes of adults' low participation in education are: (a) delay in the implementation of the Law on Adult Education for administrative reasons; (b) un-

91 Baucal, A. & Pavlović Babić, D. (2009). *Quality and Fairness of Education in Serbia: educational opportunities of the poor*. Belgrade: Government of the Republic of Serbia and the Institute for Psychology.

92 Strategy for the Development of Education in Serbia until 2020

93 National Employment Action Plan for 2014 and Draft Entrepreneurship and Competitiveness Development Strategy 2014–2020

94 Strategy for the Development of Education in Serbia until 2020

95 The survey conducted within the framework of TEMPUS Careers project, <http://www.careers.ac.rs/documents-download/finish/80-univerzitet-u-beogradu/195-careers-istrazivanje-info-za-javnost.html>.

96 Strategy for the Development of Education in Serbia until 2020

97 SORS (2011). Adult Education Survey. The datum on adult participation in education programmes in the EU is stated on the basis of the International Data Review based on the results of the Adult Education Survey conducted in 2011 in the EU Member States, Norway, Switzerland and Serbia according to a uniform Eurostat methodology.

derdeveloped offer of quality life-long learning programmes, (c) underdeveloped career counselling and guidance system for adults that would direct them towards the life-long learning programmes, (d) absence of a National Qualifications Framework and a quality assurance system for life-long learning programmes, (e) low level of awareness of the importance of life-long learning among adults and their underdeveloped competency for life-long learning.

The most developed part of the life-long learning system pertains to compensatory education for individuals over the age of 15 who have not attained primary education (ISCED 2) and do not have vocational qualifications. In practice, there is a rich offer of different forms of non-formal education (e.g. learning foreign languages, gaining basic computer literacy skills and other key competencies), mainly funded by employers or from private sources<sup>98</sup>.

No data are available on the quality of the adult population's key competencies (Serbia does not participate in the OECD PIAAC survey, which monitors the extent to which key competences are developed in adults, how they are used and to what extent they are appropriate in the current working conditions). Information on non-formal adult education programmes and providers are not fully transparent; the programmes are not systematically monitored and no quality assessment criteria have been developed to evaluate them. As a result, people with lower education who mostly have a bad experience with formal education, fail to return to education and life-long learning properly. The non-formal education system is neither sufficiently regulated nor integrated in the educational system.

*The third group of challenges* includes **low coverage by quality education, particularly with respect to children from vulnerable groups**. Coverage by compulsory primary education (ISCED 1&2) is relatively high. Three key challenges are related to low coverage by high-quality education and all of them affect the children from vulnerable groups (children from poor families, children from Roma communities, children with disability and children living in remote rural areas) in particular.

**Low coverage of children by pre-school education.** Pre-school education has an important and lasting impact on subsequent education, both in terms of the education level to be attained and the competencies (skills) to be developed by an individual. In Serbia, 58.1% of the children aged between 4 and the mandatory school start age are included in pre-school education<sup>99</sup>, while about 93% of the children aged 5.5–6.5 are included in the mandatory preparatory pre-school programme<sup>100</sup>. With regard to the coverage of children aged 4, there are no significant differences between boys and girls. However, there are significant regional and social differences – the coverage is below 10% in some municipalities, while there are also municipalities where the coverage is significantly above the national average. The main reason for these regional discrepancies lies in underdeveloped capacities and their uneven regional distribution, which results from the fact that pre-school education is funded from local governments' budgets (with the exception of the mandatory nine months' pre-school programme with four hours of instruction per day). The participation of children from families with a higher socio-economic status (SES) in pre-school education is higher than that of the children from lower SES families – 75% and 25% respectively<sup>101</sup>. The participation of children from vulnerable groups is significantly lower compared to the overall population. In 2010, only about 8% of Roma children were included in the pre-school education system<sup>102</sup>.

98 SORS (2011). Adult Education Survey.

99 SORS, data for school year 2012/13.

100 SORS, data for school year 2012/13.

101 UNICEF, MICS 2010.

102 UNICEF, MICS 2010.

**High rates of dropping out of education and early school leaving.** The percentage of early school leavers, i.e. people aged 18-24 who completed primary education (ISCED 1 or ISCED 2) or short (up to 2 years) secondary education programmes (ISCED 3c) and who are not in education or training (NEET) is about 8.1%<sup>103</sup>

There are significant regional disparities in terms of early school leaving, which largely correspond to development levels of municipalities<sup>104</sup>. Early school leaving is also significantly higher among vulnerable children (Roma students, children from families living in poverty, children with developmental problems, etc.) – for instance, the early school leaving rate among Roma children and youth is as high as 80%<sup>105</sup>. According to the results of a UNICEF study carried out in 2014, the main reasons for early school leaving are: unfavourable socio-economic status of families, poor quality of instruction, inadequate adaptation of education to the educational needs of students (particularly those from marginalised groups) and absence of support mechanisms for students with learning difficulties.<sup>106</sup>

**The accessibility of higher education is significantly lower for children from vulnerable groups.** Many secondary school students (about 65%) continue their schooling after the completion of secondary education, and in that respect, the overall coverage by higher education is relatively high<sup>107</sup>. However, a significant proportion of students drop out during studies and only one half of the students graduate in time (i.e. in the number of years equal to the foreseen duration of the course of study). However, the accessibility of higher education is considerably lower for some categories of young people – the findings of a survey carried out within the TEMPUS EQUI-ED project<sup>108</sup> show the following groups to be less included in higher education: youth from poor families, youth whose parents have lower educational attainment levels, youth schooled in minority languages and youth with disability<sup>109</sup>. Higher education courses of study are not fully available to employees who wish to improve their competences while working, and thus prepare themselves for the changes in the labour market. The work of student services, pre-examination obligations and modalities of taking examinations are ill adjusted to the obligations of the employed population.

*The fourth group of challenges* refers to **inadequate financial efficiency of the education system at all levels.**

During the past decade, **the number of students** in primary and secondary education **has been decreasing, unlike the number of teachers that has increased**<sup>110</sup>. The primary and secondary schools network has not undergone any major reorganisation. As a result of the inadequate secondary schools network, a number of schools (in regional centres) have many students and are compelled to work in two shifts, while class size depends on the occupational field (the number of students is the largest in certain “popular” profiles, which usually does not correspond to employers’ demand for labour force of that profile), while there are many small schools (mainly in rural areas) with very few students. The Government’s Regulation on the Primary Schools Network<sup>111</sup>, adopted in 2010, has not been implemented.

103 SORS, Labour Force Survey (LFS), 2013.

104 SORS, DevInfo database.

105 UNICEF MICS 2010 data and UNICEF (2014). Analysis of factors impacting primary and secondary students' drop out.

106 UNICEF (2014). Analysis of factors impacting primary and secondary students' drop out.

107 Strategy for the Development of Education in Serbia until 2020.

108 Equal Access for All: Strengthening the Social Dimension for a Stronger European Higher Education Area.

109 <http://www.equied.ni.ac.rs/en/dokumenti/finish/4-publikacije/178-the-baseline-study-eng.html>.

110 SORS, Statistical Yearbook, 2013.

111 Government of the Republic of Serbia. (2010). Regulation on the Criteria for Adopting an Instrument Governing the Pre-school Institutions Network and Primary Schools Network, Official Gazette of RS 80/2010.

**Education is still funded on the basis of the number of classes and teachers.** The Law on the Foundations of the Education System provides for funding per student to be implemented from 2015 (with adjustment factors for children from vulnerable groups). The process of piloting education funding per student was interrupted in 2012 and the bylaws that would facilitate the introduction of the new funding model in school year 2014/15 have not been adopted.

**Higher education funding is regulated differently for state and private faculties** – state faculties are funded from the national budget, from their own revenues and by students, while private faculties are almost exclusively funded by students. In the absence of analyses of the current higher education funding model, it is difficult to assess its efficiency and equity.

## 2.3. Social inclusion and social protection

### 2.3.1. Challenges in the sphere of social and child protection

**In Serbia, living standard is low and poverty is prevalent.** The absolute poverty rate measured by consumption shows that in Serbia, in recent years, between 6% and 9% of the total population has not been able to meet even its basic needs.<sup>112</sup> The 2012 at-risk-of-poverty rate of 24.6% and the severe material deprivation rate of 27% show that the level of vulnerability is substantially higher, judging by the low income levels and the inordinate number of items that individuals in Serbia cannot afford. According to these indicators, in particular the at-risk-of-poverty rate, the level of vulnerability in Serbia is higher than in the EU Member States.

In Serbia, as in many other countries, child poverty rates are considerably higher, and research, especially from earlier years, warns of a pronouncedly disadvantaged position of certain groups, such as the Roma, in particular those in informal settlements, internally displaced persons, persons with severe disability, the elderly without pensions, individuals without education or with low education levels, non-urban population.<sup>113</sup>

Many poor households are exposed to multiple deprivation factors, which requires complex interventions of a preventive nature, as well as active inclusion measures combining cash benefits, employment/activation of the clients and high-quality integrated social care services.

In a time of transition to modern family models, pronounced population ageing and depopulation, there are also many other needs that are not necessarily or primarily characterised by poverty alone, but require some response on the part of the community. These include the needs relating to reconciliation of work and parenthood, long-term care, as well as the need to protect particularly vulnerable groups.

Data show that, in recent years, the number of reported domestic violence cases has been on the increase, as well as the number of children without parental care, single-parent families, the elderly in need of home care services, children and adults with disabilities who are unable to participate in social life without support services.<sup>114</sup> In addition, there is a number of vulnerable groups that are not recognised to a sufficient extent, either within the system, or in the general

112 Mijatović, B. (2014). *Absolute Poverty in Serbia 2011-2012*, CLDS and CSP, draft.

113 Republic of Serbia (2011). *First National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia*. Republic of Serbia (2014). *Second National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia*.

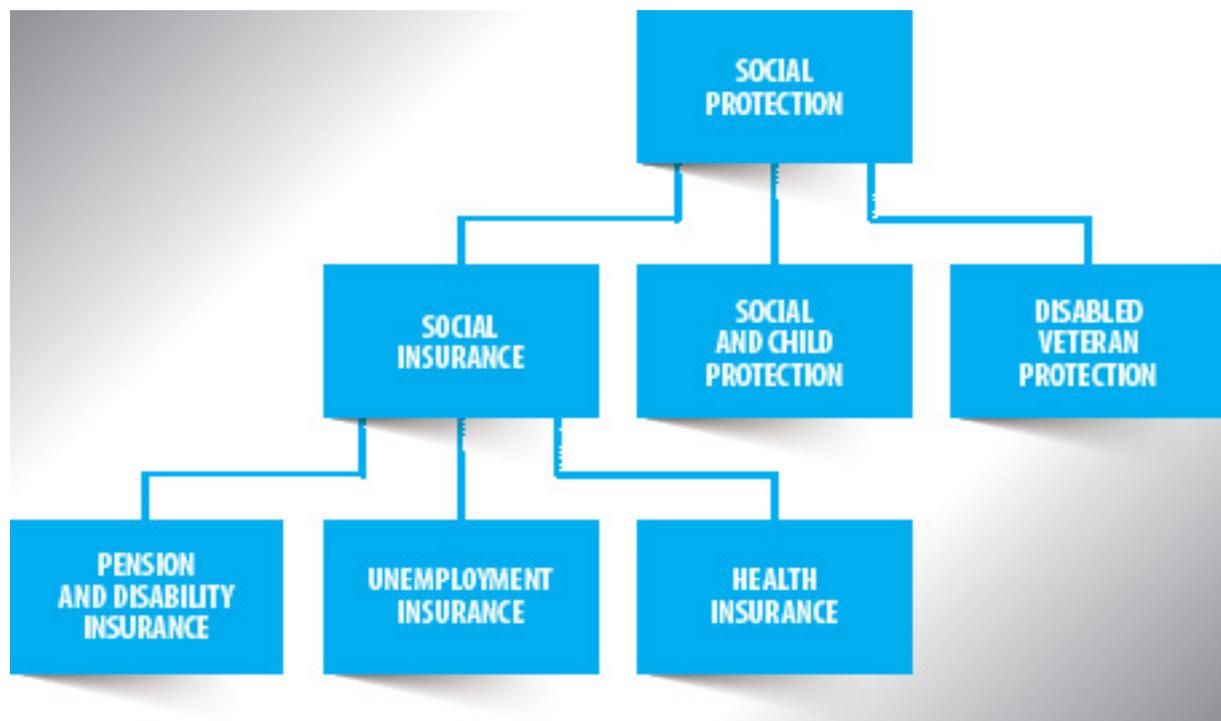
114 World Bank. (2011). *Social safety nets in the Western Balkans: design, implementation, and performance*. Washington, DC; Matković, G., Mijatović, B., Stanić, K. (2014). *Novčana davanja za decu i porodice sa decom u Srbiji*, CLDS i CSP

public; these include young drug or alcohol addicts, treated addicts, former convicts, children victims of forced begging, children without recognised paternity, etc. At the same time, as shown by the mapping findings, community-based services at the local level are still insufficiently available, unevenly developed, and often also unsustainable<sup>115</sup>.

**In Serbia, social protection is provided through social insurance and various cash and in-kind benefits within the system of social, child and disabled veteran protection.** Social insurance comprises pension and disability insurance, health insurance and unemployment insurance. Entitlements under pension and disability insurance and health care are partly funded from the national budget. Most social benefits are provided at the national level. In recent years, the expenditures on social protection amounted to about 25% of the GDP. In the expenditures breakdown, expenditures on net pensions prevail, at more than 13% of the GDP.

**The ratio of expenditures on social protection to Serbia's GDP (below 25%) is lower than the EU-28 average,** which has been approximately 29% in recent years. However, in absolute terms, according to the Eurostat data for 2012, the expenditures amounted to only about 2,200 PPS per capita, i.e. 3.5 times lower than in the EU-28. Only Bulgaria and Latvia had lower expenditures than Serbia in PPS per capita.

Chart 1. Graphic presentation of the social protection system



**Social transfers** comprise insurance-based cash benefits – pensions, unemployment benefits and sickness benefits, as well as non-contributory cash benefits – social assistance, child allowance and birth grant, maternity pay, attendance allowance, and various financial entitlements under disabled veteran protection. In addition, local governments award one-off cash assistance, as well as additional means-tested cash benefits. The ratio of the expenditures on social trans-

115 [http://www.inkluzija.gov.rs/wp-content/uploads/2013/11/mapiranje\\_usluga\\_socijalne\\_zastite\\_izvestaj.pdf](http://www.inkluzija.gov.rs/wp-content/uploads/2013/11/mapiranje_usluga_socijalne_zastite_izvestaj.pdf)

fers provided at the national level to the GDP stood at over 18% in 2012 and 17.7% in 2013<sup>116</sup>.

**The effectiveness** of social transfers may be assessed by comparing the at-risk-of-poverty rates before and after granting them. The effectiveness of social transfers (not including pensions) amounted to 21.7% in 2012, as they enabled reducing the at-risk-of-poverty rate from 31.4% to 24.6%. If pensions are included in social transfers, the effectiveness of the latter in Serbia is significantly increased. The at-risk-of-poverty rate would be twice as high without social transfers (including pensions). Effectiveness is lower in Serbia than in the EU.

**The efficiency** of social transfers (not including pensions), in terms of comparing the expenditures on transfers and the reduction in the at-risk-of-poverty rate, shows that Serbia belongs to the low spending, low poverty reduction countries.<sup>117</sup>

Extreme poverty reduction and the portion of social protection not provided under social insurance are provided in Serbia under social and child protection, governed by two laws:

- **The Law on Social Protection (2011)** regulates the entitlement to means-tested cash benefits (financial social assistance, increased financial social assistance, one-off assistance), long-term care cash benefits (attendance allowance, increased attendance allowance, the entitlement to the balance of the increased attendance allowance for children with disabilities who exercise this right under the pension and disability insurance system), vocational training, social care services, as well as regulatory and oversight mechanisms in the sphere of social protection. Social care services comprise assessment and planning services, day-care community-based services, services for independent living, counselling, therapy and social education services, as well as (foster and residential) care services.
- **The Law on Financial Support to Families with Children (2002)** regulates the entitlement to cash benefits aimed at the protection of poor families with children (child allowance), as well as benefits aimed at the reconciliation of work and parenthood and birth promotion (maternity pay and birth grant).

All financial entitlements (except one-off cash assistance) and residential and foster care services are within the mandate of the central government. Financial entitlements are administered by centres for social work (CSW) and the relevant local government departments. CSWs also assess the needs of the disadvantaged and plan their protection; under the Family Law (2005), they also discharge the role of guardianship authorities. The total allocations for these purposes amounted to approximately 2% of the GDP in 2013.

Community-based services and one-off cash assistance, as well as means-tested in-kind benefits for poor individuals and families, are also within the mandate of local governments.

116 Social transfers defined in this manner differ from expenditures on social protection according to the ESSPROS methodology by health care expenditures.

117 [http://ec.europa.eu/europe2020/pdf/themes/33\\_poverty\\_and\\_social\\_inclusion.pdf](http://ec.europa.eu/europe2020/pdf/themes/33_poverty_and_social_inclusion.pdf)

Table 5: Cash and in-kind benefits at the national level, number of clients, monthly amounts and ratio of annual expenditures to the GDP, 2013

Entitlements	Number of beneficiaries		Amount		Expenditures
	individuals/ children	households	dinars	PPS-AIC	ratio to the GDP
Financial social assistance	258,807	101,656	7,490	144*	0.33
Child allowance	387,847	206,099			0.32
basic			2,522	48	
increased			3,280	63	
Attendance allowance	51,670				0.24
basic			9,429	181	
increased			25,430	488	
Birth grant	60,030	61,466	35,800	687*	0.16
Parental leaves	36,686				0.63
(Residential and foster) care	20,000				0.15
Centres for social work					0.07

Source: Ministry of Labour, Employment, Veteran and Social Affairs, 2013

Note: The amount of financial social assistance per equivalent adult; the amount of birth grant for the first child

### Key challenges in the sphere of social and child protection

*The first group of challenges* comprises **increasing the coverage and improving the adequacy of means-tested cash benefits, subject to the availability of budget funds.**

Assuming perfect targeting, the coverage of the population at risk of poverty and entitled to financial social assistance would be only 15%. The data on the number of individuals and children from the poorest quintile by consumption who receive financial social assistance and child allowance indicate the need to increase the coverage of the disadvantaged by these cash benefits<sup>118</sup>. The coverage may be increased by raising the income ceiling, and also by relaxing property-related and other qualifying requirements (such as the requirement in the child allowance scheme for the parents to be covered by health insurance).

From the aspect of the ability to meet the basic needs, the adequacy of means-tested benefits is borderline acceptable and differs by family types and children's ages. For instance, the sum of these two benefits for a family without income and with two children without disability amounts to approximately RSD 18.5 thousand per month (356 PPS), i.e. over 90% of the minimum wage and nearly two thirds of the at-risk-of-poverty threshold and the absolute poverty threshold<sup>119</sup> from 2012. In comparative terms, the amounts of financial social assistance and child allowance are low in relation to those in the EU Member States. In relation to the new Member States, the amounts – in particularly child allowance – are not wholly unsatisfactory.<sup>120</sup>

In view of comparability with the minimum wage in Serbia, as well as the potentially discouraging effect on work and employment, further improvement of the adequacy of cash benefit

118 [http://www.unicef.rs/files/novcana\\_davanja\\_za\\_decu\\_i\\_porodice\\_sa\\_decom\\_u\\_rs.pdf](http://www.unicef.rs/files/novcana_davanja_za_decu_i_porodice_sa_decom_u_rs.pdf)

119 Owing to higher equivalence scales, the difference between the absolute poverty threshold and the at-risk-of-poverty threshold for a family of two adults and two children is negligible.

120 In 2010, child allowance for the first child aged 3–6 amounted to 40 PPS in Serbia, which was equal to or higher than that in former transition countries, except Hungary and Slovenia. Matković, G., Mijatović, B. (2012). *Program dečijih dodataka u Srbiji: Analiza i predlozi za unapređenje*. Beograd: Centar za liberalno-demokratske studije

amounts requires introducing activation of the financial social assistance recipients fit for work, which is foreseen by the current legislation, but, as yet, not implemented. A particularly important challenge in implementing activation may be identified in designing incentives for youth and other vulnerable groups to return to education and their involvement in further training and retraining programmes.

An additional challenge in this sphere is care for the elderly who have no entitlements under pension insurance and who, primarily on the grounds of the assets test, are not covered by the financial social assistance scheme either.

Subsidised rent for tenants of social housing units as a mechanism for reducing the total housing costs and improving the adequacy of means-tested cash benefits is possible under the Law on Social Housing<sup>121</sup>. In the coming period, it is necessary to analyse how to improve this mechanism.

*The second group of challenges* comprises **enhancing support to biological families<sup>122</sup> to prevent separation of children, continuing the deinstitutionalisation process, developing community-based services.**

The share of vulnerable groups, in particular children, in residential care institutions is not high in Serbia. Most children and youth, nearly 90%, are placed in foster care (kinship and non-kinship foster care). However, among children with disabilities (approximately 1,000), the share of those in institutional care remains somewhat higher (54.6%); despite certain improvements, the conditions in residential care institutions are unsatisfactory, with a modest offer of rehabilitation and stimulation programmes<sup>123</sup>. Strengthening mechanisms and programmes for support to biological families and further development of foster care for children with disability are the main challenges in this sphere, in both the short and medium term. With respect to support to the biological families of children with disability, there is a strong need to expand community-based services, in particular those supporting inclusion in the mainstream education system.

The living conditions of adults with intellectual and mental health difficulties (approximately 5,400 residents) are satisfactory in most institutions; however, further efforts are required towards their improvement, as well as towards development of alternative non-institutional forms of care. Supportive housing for PWD is still emerging in Serbia; this service is provided to only about 50 clients in the largest cities and, in the short term, the challenge lies in launching support programmes for local governments to introduce supportive housing services for persons with disabilities, as a prerequisite for continuing the deinstitutionalisation process. The challenge in the medium term is deinstitutionalisation and integration of persons with intellectual or mental health difficulties in the community, which requires defining integrated cross-cutting services.

In the short term, introducing earmarked transfers to less developed municipalities with a view to establishing and increasing the availability of community-based services remains an import-

121 Law on Social Housing (Official Gazette of RS No 72/09).

122 The share of vulnerable groups, in particular children, in residential care institutions is not high in Serbia. Most children and youth, nearly 90%, are placed in foster care (kinship and non-kinship foster care). However, among children with disabilities (approximately 1,000), the share of those in institutional care remains somewhat higher (54.6%); despite certain improvements, the conditions in residential care institutions are unsatisfactory, with a modest offer of rehabilitation and stimulation programmes. Strengthening mechanisms and programmes for support to families, preventing separation of children and further development of foster care for children with disability are the main challenges in this sphere, in both the short and medium term. With respect to support to families of children with disability, there is a strong need to expand community-based services, in particular those supporting inclusion in the mainstream education system.

123 UNICEF (2014). *Situaciona analiza* (under preparation)

ant prerequisite both for preventing institutionalisation and for support to biological families, especially with respect to children with disability and the elderly. In the medium term, another challenge is the provision of both funding and professionals needed to expand and develop many community-based services, such as personal assistance, children's personal attendants, supportive housing for young people leaving the care system, shelters for domestic violence and trafficking victims.

*The third group of challenges* comprises **segmentation of long-term care, absence of a link between cash benefits and services, insufficient availability of long-term care services.**

A part of the long-term care services in Serbia is provided through cash benefits, a part through institutional care and home care services at the local level, while a part is only being established within the health care system. Long-term care cash benefits are partly disbursed by the social protection system, and partly by the pension and disability insurance system, and are intended for clients who are unable to perform activities of daily living independently, regardless of their financial situation. The increased attendance allowance, in the amount of approximately RSD 25,400 (488 PPS) per month, granted to persons with the most severe disabilities, exceeds the net minimum wage level by 27%. In relative terms, the amount of this entitlement can be assessed as adequate, even comparatively. In the coming period, the rationale for the entitlement to attendance allowance within the social protection system and the entitlement to attendance allowance within the pension and disability insurance system will be reviewed, and the possibility of access to this entitlement within a single system or keeping consolidated records of all attendance allowance recipients will be considered. It is also important to put efforts into the provision of information on entitlements and assistance in submitting applications.

Community-based long-term care services, mainly providing support for instrumental activities of daily living, are still not sufficiently developed or available, while palliative care is primarily available within residential care, and its introduction in the health care system is in its early stages. About 15.5 thousand people aged over 65 (1.2% of the total elderly population) used home care services in recent years, and over 7 thousand (0.6%) availed themselves of residential care services provided by the public sector. In the context of an aging population, increased life expectancy of the 65+ age group and further changes to family models, the demand for these services is expected to increase substantially.

Another challenge lies in linking benefits to the relevant services, and in particular defining the network of social and health care institutions envisaged by the Social Protection Law, which is particularly important for long-term care clients, as well as persons with mental health difficulties.

*The fourth group of challenges* comprises **improving service quality, strengthening oversight and regulatory mechanisms, monitoring and evaluation.**

The reform processes in the area of social protection entail not only adopting a completely different, client-centred approach, but also establishing numerous new, innovative and flexible services, involving more service providers from the non-state sector (CSO and private), and linking the widest range of stakeholders at the local and national levels. Such changes require a different role of centres for social work and other social care institutions and improvement of their service quality, as well as significant strengthening of regulatory and oversight mechanisms. In addition, such changes entail ongoing monitoring and evaluation of policies at the national and local levels.

In the short term, the challenge lies in finalising the process of standardising services and licensing social care institutions and professionals, developing the relevant by-laws and setting up and strengthening training programmes. Challenges may also be identified in the need for services tailored to the clients' individual needs, in better defining the eligibility criteria for clients, in introducing elements of services evaluation from the client perspective, in intensifying support to CSOs as social service providers, as well as in improving the standards and quality of care in residential care institutions.

In the short term, another challenge lies in adopting realistic programmes for social (and child) protection development at the national and local levels in the forthcoming medium-term period (2015–2020), accompanied by a clear definition of priorities and awareness of limited budget resources. In this context, in addition to establishing monitoring and evaluation mechanisms, it is important to establish regular exchange of local policy experiences and good practices.

The medium/long-term challenge is to expand the regional foster care and adoption centres, review the number of professionals in the centres for social work and, in particular, strengthen inspection services at the national level, as well as in services that conduct inspections as affairs delegated to them – i.e. competent authorities of autonomous provinces or city administrations.

*The fifth group of challenges* comprises **linking centres for social work with health care, education and employment service providers, as well as the police, CSOs representing certain vulnerable groups, the Red Cross and the relevant local government services.**

Many vulnerable groups in Serbia face multiple risks and deprivation factors that cannot be addressed within one single sector. The Roma living in informal settlements, internally displaced persons from Kosovo and Metohija, as well as domestic violence victims, trafficking victims, children from disadvantaged families dropping out of school, youth without parental care leaving the care system, children and youth with behavioural problems and juvenile offenders, persons with disabilities, the elderly in remote rural areas, etc. are certainly the most prominent among these groups.

In the medium term, the challenge lies in introducing integrated cross-cutting services and ensuring the continuity of care for these specific vulnerable groups, while in the short term, the challenges may be summarised as follows:

- establishing regular information sharing and the interconnection of information systems of different sectors, government tiers and various stakeholders within individual sectors, and defining a protocol for action in cases of cross-cutting risks at the national, provincial and local levels;
- introducing assistance to particularly vulnerable groups in applying for certain entitlements, simplifying the administrative procedures, procuring documents on behalf of the clients and providing better information about entitlements and services;
- establishing an early warning system for potential clients at risk;
- coordinating the work and redefining the role of certain stakeholders at the local level who emerged during the implementation of various projects and sector schemes targeting specific vulnerable groups, and reviewing their cross-sectoral potentials (Roma coordinators, health mediators, teaching assistants, youth offices, intersectoral committees on children, municipal/city housing agencies, the Red Cross and CSOs), taking clients' needs into account;
- defining procedures and joint training in anti-discrimination for professionals from various sectors at the national, provincial and local levels.

### 2.3.2. Pension system challenges

#### 2.3.2.1. Introduction

The Serbian pension system comprises the statutory pension and disability insurance system and the voluntary pension funds and pension plans system.

The statutory pension and disability insurance system – a compulsory (state-run) system, based on the principles of intergenerational solidarity and current income financing (pay as you go). The following risks are insured: old age, disability, death of the insured person or beneficiary, occupational injury and occupational disease, and the need for long-term care and attendance. The system covers employees (including civil servants, members of the Armed Forces, police and security services), sole traders (including liberal professions), farmers and persons included in statutory insurance on a voluntary basis. The system follows the philosophy of Bismarck's social insurance system; it is funded by contributions paid by insured persons and employers. The amounts of entitlements are computed according to the points principle.

The voluntary pension funds and pension plans system is the additional pension insurance, based on voluntary membership, investment risk sharing and accumulation of assets. It is implemented through voluntary private pension funds. An employer, employers' association, professional association or union can enter into a pension plan with the management company in order to pay pension contributions for the account of their employees or members.

Statutory pension and disability insurance is governed by the Pension and Disability Insurance Law<sup>124</sup>. The payment of pension and disability contributions and collection oversight are subject to the Statutory Social Insurance Contributions Law<sup>125</sup>. The Law on Voluntary Pension Funds and Pension Plans<sup>126</sup> governs the area of voluntary pension funds and pension plans.

The Law on the Central Registry of Statutory Social Insurance<sup>127</sup> stipulates the establishment of the said Registry with the aim of taking over the records on insured persons and social insurance beneficiaries. The development of a database of the insured persons and beneficiaries is under way, and up to now a limited functionality of the Central Registry has been achieved (registration for insurance, de-registration, records, etc.). The full functionality of the Central Registry will contribute to more effective and efficient policy implementation and improvement in the business environment.

Statutory pension and disability insurance is within the mandate of the Ministry of Labour, Employment, Veteran and Social Affairs (MoLEVSA) and the Ministry of Finance (MoF) – both ministries have a legislative role. The provision and implementation of pension and disability insurance is within the mandate of the Republic of Serbia Pension and Disability Insurance Fund (RS PDIF). The National Bank of Serbia oversees the operation of voluntary pension fund management companies, keeps the Register of Voluntary Pension Funds and, together with the MoLEVSA, adopts the by-laws necessary for the implementation of the Law on Voluntary Pension Funds and Pension Plans. Since 2014, the Central Registry of Statutory Social Insurance (CRSSI) is under the competence of the Ministry of Finance.

124 Official Gazette of RS Nos 34/03, 64/04, 84/04, 85/05, 101/05, 63/06, 5/09, 107/09, 101/10, 93/12, 62/13, 108/13, 75/14 and 142/14.

125 Official Gazette of RS Nos 84/04, 61/05, 62/06, 5/09, 52/11, 101/11, 47/13, 108/13, 57/14 and 68/14.

126 Official Gazette of RS Nos 85/05 and 31/11.

127 Official Gazette of RS Nos 30/10, 44/14 and 106/14.

Pension system reform, implemented in stages since 2001, has substantially changed system characteristics and structure. In July 2014, amendments to the Pension and Disability Insurance Law were adopted, gradually equalising the retirement age for both sexes to 65 years of age, establishing the legal concept of early old-age pension, which entails the reduction of the pension level in case of early retirement, and introducing significant changes in the area of increased pensionable service.

Further measures pertaining to the pension amounts were adopted in the last quarter of 2014 as part of the Government's fiscal consolidation programme. All pensions above RSD 25,000 were progressively reduced in November. This measure resulted in lower pensions for approximately 39% of the pensioners.<sup>128</sup> Subsequently, amendments to the Law on Pension and Disability Insurance and the Budget System Law, which were adopted in December, provide that pension amounts will not be raised until the ratio of pension expenditures to the GDP falls below 11%.

### 2.3.2.2. Key challenges

The Serbian pension system faces challenges similar to those faced by other European countries' systems as a result of accelerated population ageing and growing ratio of the number of pensioners to the economically active population. In addition, there are certain features specific to Serbia – the heritage of unwarranted generous benefits in the past and resorting to the pension system in order to address redundancies during transition, long-term employment decline and current low employment level, as well as widespread grey economy and shorter lifespan compared to other European countries.

The principal challenge for the Serbian pension system, as well as other countries' systems, is to provide pensions that would be both adequate and financially sustainable, and these two goals are usually very difficult to reconcile.

#### Challenges relating to the financial sustainability of the pension system

The overall expenditures on pensions in Serbia, as well as transfers to the Pension Fund from the national budget, constitute a significant burden on the national economy and budget in the context of high budget deficit and insufficient GDP growth. The key problems – low ratio of insured persons to pensioners and unfavourable demographic trends – further aggravate the situation.

**High share of expenditures on pensions.** The pension expenditures amounted to 11.7% of the GDP in 2007<sup>129</sup>, only to increase to 14.1% of the GDP in 2009, following a 14% real growth of pensions in 2008 and decline of the GDP in 2009. Since 2010, real pensions have recorded a steady decrease, which has resulted in a gradual decrease of the ratio of pension expenditures to the GDP, with occasional oscillations.

128 Law on the Temporary Regulation of Pension Disbursement (Official Gazette of RS No 116/14).

129 Military pensions have been a part of the single pension insurance system since 2012. Previously, those expenditures, amounting to 0.7% of the GDP, were not encompassed by the reports on pension expenditures. In the interest of comparability, in the present document, the expenditures on military pensions are included in the total pension expenditures in 2007. Sources: RS PDIF for the Fund's expenditures, estimate of the Ministry of Finance for the GDP level.

Pension expenditures amounted to 12.8% of the GDP in 2013 and were higher than the average for EU Member States – 11.4% of the GDP<sup>130</sup>. In eight EU Member States<sup>131</sup>, the ratio of pensions to the GDP is higher than in Serbia, and in another four Member States, it is at an approximately same level<sup>132</sup>. Compared to the average for the Central and Eastern European EU Member States<sup>133</sup>, Serbia's ratio of pension expenditures to the GDP is 3.5 percentage points higher. This is partly a result of the low GDP, which in 2013 was still below the 2008 level. According to the estimates, the GDP declined in 2014; therefore, it can be expected that the ratio of pensions to the GDP for 2014 increased.

The latest amendments to the fiscal rules<sup>134</sup> set the target of decreasing the ratio of pension expenditures to the GDP to 11%, i.e. slightly below the EU average. Reaching this target within a short time frame, in the context of slow GDP growth, could significantly compromise pension adequacy.

**Deficit of contribution revenues for funding pensions disbursement.** Pension and disability insurance contributions are the main source of revenues to the national Pension and Disability Insurance Fund (PDIF). In 2007, they amounted to 8.5% of the GDP, only to decline to 7.6% in 2011 owing to a decline in employment. Since then, their ratio to the GDP grew to 8% in 2013, which was still short of the 2007 level. Other regular revenues of the PDIF amount to about 1% of the GDP<sup>135</sup>; hence, the shortage of funds required for the regular disbursement of pensions in 2013 amounted to 3.8% of the GDP.

In addition to pensions, the PDIF funds administrative costs, the disbursement of other entitlements<sup>136</sup>, as well as pensioners' health insurance contributions, totalling 2.3% of the GDP. As a result, the total deficit of the funds required for the settlement of all expenditures amounted to 6.1% of the GDP in 2013. Irrespective of the structure of the deficit, these funds present a substantial burden on the budget. Budget transfers for the coverage of the total deficit accounted for almost one quarter of the total Serbian budget expenditures in 2013, or 40% of the PDIF revenues. One of the major problems under the PDIF is farmers' insurance, since this type of insurance is almost entirely funded from the budget due to poor contribution collection, low insured person/pensioner ratio, inefficient system of registration for insurance. In addition to the much needed increase in the number of insured persons, improvement in contribution collection is crucial to increasing the share of contribution revenues in the total PDIF revenues and decreasing the deficit.

**The demographic situation is unfavourable.** At the end of 2013, a total of 18% of Serbia's population was aged 65 and over (15.7% of males and 20.3% of females)<sup>137</sup>. According to projections<sup>138</sup>, this age group will account for about 30% of the country's population in 2060. Serbia's

130 Data for 2012. The average level for the EU Member States stood at 13.2% in the same year. Source: Eurostat.

131 Italy, Portugal, Greece, the Netherlands, France, Austria, Finland and Denmark.

132 Belgium, Germany, Spain and United Kingdom Britain – the ratio is 12% or above.

133 EU 8+2+1 - Slovenia, Hungary, the Czech Republic, Slovakia, Poland, Lithuania, Latvia, Estonia, Bulgaria, Romania and Croatia – mandatory private insurance has been introduced in most of these countries, and they have faced high transition costs, as a result of which they have been compelled to restrict the entitlements of the existing and new pensioners substantially.

134 Stipulated by the Budget System Law (Official Gazette of RS Nos 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13, 108/13 and 142/14).

135 Including budget allocations for liabilities assumed by the state relating to the disbursement of pensions under special legislation and the balance to the minimum pension; these amounted to 0.7% of the GDP in 2013.

136 Attendance allowance, impairment allowance, funeral grant and other entitlements disbursed under statutory pension and disability insurance.

137 According to the estimates of the Statistical Office of the RS.

138 Penev, G. (2013). *Projekcija stanovništva Srbije od 2010. do 2060. godine*, Beograd, Fiskalni savet – the data obtained through the prognostic projection variant were used here.

old age dependency ratio<sup>139</sup> amounts to 26.7% and is close to the EU average (27.5% in 2012)<sup>140</sup>. The projected value of this ratio for Serbia in 2060 is 54.3%, which is above the EU projection of 50.2%, while the projected values for individual EU Member States range between 35% and over 60%<sup>141</sup>.

On the other hand, life expectancy in Serbia is lower than that in almost all EU Member States. Life expectancy at age 65 for males is 14 years, i.e. 3.7 years below the EU average, and 0.8 years below the average for Central and Eastern European EU Member States. Life expectancy at the same age for females is 16.5 years in Serbia; this is 4.6 years below the EU average and 2.5 years below the average for Central and Eastern European EU Member States<sup>142</sup>.

Therefore, the proportion of the elderly population in the overall Serbian population is currently close to the EU average. However, in setting retirement requirements, the fact that life span is shorter in Serbia than in the EU countries should be taken into account.

**Steady decline in the ratio of insured persons to pensioners.** This trend has been particularly exacerbated in the past twenty years or so. In 1990, there were 2.7 insured persons per one pensioner, in 1999 – 1.8, while in 2014 the ratio was 1.4 insured persons per one pensioner<sup>143</sup>. In December 2014, the number of pensioners totalled 1,739,000, of whom 81% were retired employees.

Economic problems and the protracted transition process have resulted in a decrease in the number of insured persons. Reform measures mitigated the impact of the factors that, in addition to the natural maturation of the system, were drivers of the increase in the number of pensioners: liberal retirement requirements, retirement as a one-off solution to the problem of redundancies, as well as corruption in awarding disability pensions. Demographic reasons (retirement of the “baby boom” generation, currently under way) are assuming the dominant role in the increase of the number of pensioners. Retirement requirements have been tightened significantly in the recent period<sup>144</sup>, and with the latest amendments to the applicable regulations, Serbia is joining the trend of equalising the retirement age for both sexes. The retirement age for women, which in nominal terms is still among the lowest in Europe (partly due to the fact that life expectancy and retirement span in Serbia are shorter than in EU countries), will be increased to 65 years of age by 2032. The implemented measures are supposed to result in the reduced influx of new pensioners, thereby halting the growth of the total number of pensioners and improving the ratio of insured persons to pensioners.

Given the growing share of the elderly population, it will not be possible to reverse the trend in order to improve the ratio of insured persons to pensioners by measures aimed at decelerating the inflow of new pensioners alone; instead, the main prerequisite is growth of the currently low employment.

**A significant number of new old-age pensioners retire before reaching the general retirement age.** The possibilities for early retirement have been restricted gradually since 2011; an improvement in the age profile of new pensioners has thus been observed, but the share of

139 The ratio of the population aged 65 and over to the population aged 15–64.

140 Source: Eurostat.

141 EUROPOP 2013, main scenario.

142 Source: Eurostat.

143 According to data of the PDIF central records.

144 For instance, the general retirement age was raised by a total of five years in multiple steps between 2002 and 2011, to 65 years for men and to 60 years for women.

younger pensioners is still substantial. In 2012, 45% of new male old-age pensioners retired under the general regulations<sup>145</sup> before reaching the age of 65, and an additional 12% retired under more favourable terms on the grounds of increased pensionable service. However, the effective retirement age is increasing steadily. For men, it was 62.8 years of age in 2013 – a 2.1 years' increase compared to 2008. As for women, 34% of new old-age pensioners retired under the general regulations before reaching the age of 60, and 2% – on the grounds of increased pensionable service. The effective retirement age has approached the general one; thus, in 2013, it was 59.5 years, i.e. 2.2 years more than in 2008. In 2013, the aggregate effective retirement age (for both sexes) reached 61.9 years.

Until end 2014, no penalties for retirement before reaching the general retirement age were applied in Serbia. This practice changed as of 2015, and it is thus aligned to the practices in other EU countries, which considerably vary with regard to early retirement requirements. By introducing relatively strict requirements for early retirement<sup>146</sup>, Serbia has opted for strong discouragement of early old-age retirement. A new challenge is to establish whether this is the right way to discourage early retirement, in view of the relatively high and constantly growing effective retirement age, shorter life span, as well as the need to protect the individuals who started working at a very young age and have been insured for longer periods of time. Also, there is a considerable pressure to retire, largely because retirement is attractive owing to job insecurity, job structure not adapted to elderly workers and low employability of the elderly labour force. Tightening old-age retirement requirements will also result in higher pressure on disability pensions (survivors' pensions, as well), even with markedly strict qualifying requirements applicable in Serbia. An additional challenge is the need to regulate the area of increased pensionable service and the possibility of retirement under special conditions. Therefore, there is a challenge to assess the adequacy of the overall retirement requirements.

### **Challenges of maintaining pension adequacy and safeguarding the living standard of the elderly**

The challenge of maintaining the adequacy of the present and future pensions will be greater if achieving the financial sustainability of the system in the short term is prioritised. In addition, the problem of the elderly who are not entitled to a pension is present.

**The living standard of the elderly without pensions must be safeguarded.** Pensions play an important role in reducing elderly poverty, which is lower than that of the overall population. According to the 2011 Population Census, about 85% of the population over the retirement age is covered by pensions. The coverage of men aged 65 and over amounts to 93.3%, while the coverage of women aged 60 and over amounts to 79.3%. Women account for 85% of the population over the retirement ages. The coverage decreases in older age groups, and is the lowest for individuals aged 85 and over.

In Serbia, there is no special minimum income scheme targeting specifically the elderly who do not fulfil minimum retirement requirements, but they may access social assistance under the same conditions as all other citizens. However, only 0.9% of the population over 65 receive social assistance<sup>147</sup>.

145 In 2014, men could retire, without having their pension reduced, upon attaining 40 years of pensionable service and at least 54 years and four months of age, while it was envisaged that the latter requirement was to be raised to 58 years of age by 2023. For women, the requirements were 35 years and eight months of pensionable service and 53 years and four months of age, while it was envisaged that the requirements would be raised to 38 years of pensionable service and 58 years of age by 2023. The adopted amendments abolished the said requirements and introduced the early old-age pension with the reduced pension level in case of retiring before the general retirement age. The other possibility for both sexes is retirement upon attaining 45 years of pensionable service, irrespective of age.

146 40 years of pensionable service, with the reduction of the pension level by 0.34% for each month, or 4.08% for each year short of the general retirement age requirement, up to 20.4% maximum.

147 Source: MoLEVSA

The issues of growing unemployment, grey economy and failure to pay social insurance contributions on the actual base have been present for more than 20 years. This results in a decrease of labour force coverage by pension insurance. In the next 15–20 years, these developments will lead to substantially lower pensions and a larger number of minimum pension recipients, and will, to a certain extent, influence an increase in the number of the elderly without pensions.

**Declining pension levels.** Following real pension growth after the year 2000, particularly pronounced early in the period, and two extraordinary pension increases in 2008, pensions have constantly recorded a real decline since 2010; thus, in 2013, they decreased in real terms to the 2007 level, which means that the effects of the substantial increase in 2008 had “melted away” in the meantime. The latest reduction of larger pensions and the freezing of all pension amounts for an indefinite period will undoubtedly contribute to the maintenance of this trend. The average pension<sup>148</sup> amounted to 54.1% of the average wage in 2014<sup>149</sup>, which constitutes a decline compared to 67% in 2002<sup>150</sup>. At the same time, average pension levels and their ratios to the average wage vary significantly among different pension insurance categories. For retired employees and sole traders, the average pension amounts to 54–55% of the average wage, for retired farmers, the average pension amounts to only 23% of the average wage, while for military pensioners, the average pension amounts to 101% of the average wage in Serbia.

If we focus only on old-age pensions, in 2002, the average old-age pension in the prevalent category – retired employees – amounted to 87.3% of the average wage, and in 2014 it stood at 64.4%. In the same category, women’s average old-age pension is 83% of men’s average pension.

The net replacement rate<sup>151</sup> for an individual who retired in 2014 was 63.2%. This ratio amounted to about 89% in 2003, 72% in 2007, and 71.5% in 2010, indicating that replacement rates declined even in times of real pension growth, as a result of substantial wage growth in that period. Until 2010, the replacement rate was comparable to those in the EU (EU 27 – 72.5%, EU 8 – 72.3%<sup>152</sup>), but is noticeably lower now.

Uprating of the general point value – a parameter for computing pension levels<sup>153</sup> – by rates lower than wage growth rates, even lower than the inflation rates, will result in further decline of the replacement rate. Interruptions in pensionable service, payment of contributions on the minimum base, as well as the decrease in the coverage by pension insurance, will further affect the decline in pensions in the future.

**Constrained conditions for the development of additional pension savings.** Voluntary pension funds have operated for only eight years, mainly in an unfavourable economic environment. Four management companies operated in the voluntary pension funds market at the end of 2014 and managed the assets of six voluntary pension funds. As at the end of 2014, the funds’

148 Aggregate figure for old-age, disability and survivors' pensions at the level of the entire PDIF.

149 Source: PDIF for the data on pension levels, SORS for the data on wage levels.

150 The methodology for monitoring wages has been changed in the meantime; as a result, wages are about 10% lower than according to the old methodology. Hence, the rate at which pensions lag behind wages is higher than can be inferred on the basis of the presented figures.

151 Ratio of the pension level for an individual who retired in 2013 with 40 years of pensionable service and wages at the level of the Serbian average throughout his/her working life, reduced by consumer prices change in that year, to the average wage in Serbia in 2012. This ratio shows an individual's pension level in the first year after retirement compared to his/her earnings throughout the working life.

152 European Commission. (2012). *Pension Adequacy in the EU 2010-2050*, Luxembourg.

153 The calculation of pension levels is based on the multiplication of the personal point value (the aggregate indicator of the attained pensionable service and insured person's wage levels) by the general point value (used to translate personal points into monetary amounts; has the same value for all insured persons who retire at a given time). The general point value is uprated in the same intervals and according to the same formula as pensions, which is a rare practice in the EU pension systems.

net assets had increased by 19.6% relative to the preceding year, reaching RSD 23.6 billion (0.6% of the GDP). As at the end of 2014, a total of 187,997 clients – 2.6% of Serbia’s population or about 11% of the employed – were in the stage of accumulation of assets. About 31.3% of all clients actively deposit funds. The underdeveloped financial market, low living standard, low employment and high maximum social insurance contributions base<sup>154</sup> constrain the development of this part of the pension system.

### 2.3.3. Challenges regarding the health care for the population and health system

#### 2.3.3.1. Introduction

The Republic of Serbia’s health care system formally follows Bismarck’s statutory health insurance model and its primary goal is to attain the highest possible level of citizens and family health protection through measures aimed at preserving and improving health, prevention and early detection of illnesses and injuries, as well as timely and efficient treatment and rehabilitation<sup>155</sup>. The statutory health insurance is ensured and provided by the National Health Insurance Fund (NHIF), which exercises public powers in providing and implementing health insurance, as well as in resolving issues relating to rights and obligations deriving from the statutory health insurance, in compliance with the law governing health insurance<sup>156</sup>.

The total expenditures on health care amounted to 10.6% of Serbia’s GDP in 2013<sup>157</sup>. According to the same source, public expenditures accounted for 60.5%, and private expenditures – for 39.5% of the total expenditures, while external sources of health care funding accounted for 0.46%. The National Health Insurance Fund (NHIF) covers 93.46% of the public expenditures on health care. In 2013, expenditures on health care accounted for 94.5% of the total NHIF expenditures. As regards the breakdown of these expenditures, health care professionals’ wages and benefits including social insurance contributions at the employer’s expense account for the largest proportion (46.3%), followed by medicines and medical supplies in health care institutions (16.1%), prescription medicines (14.9%), dental services (2.21%), dialysis supplies (2%), aids and devices (1.3%)<sup>158</sup>.

In 2014, the public health care sector comprised a total of 380 individual health care institutions under the Regulation on the Health Care Institutions Network Plan<sup>159</sup>. Health care provision is organised at three levels – primary, secondary and tertiary, with an elaborate network of health care institutions at all levels. As a result of depopulation and migration, some primary health care institutions (satellite clinics and outpatient facilities) in Serbia’s rural areas have been closed, which hampers the accessibility of these services to rural, mainly elderly popula-

154 This leaves less leeway for additional savings.

155 Law on Health Care, Article 2. Official Gazette of RS Nos 107/2005, 72/2009 – amended by another law, 88/2010, 99/2010, 57/2011, 119/2012 and 45/2013 – amended by another law, and 93/2014.

156 Law on Health Insurance. Official Gazette of RS Nos 107/2005, 109/2005 – corrigendum, 57/2011, 110/2012 – Decision of the Constitutional Court and 119/2012.

157 Selected indicators of health care expenditures provided to the World Health Organization. Available at: [http://www.batut.org.rs/index.php?category\\_id=50](http://www.batut.org.rs/index.php?category_id=50)

158 National Health Insurance Fund. 2013 Report on Financial Operations of the National Health Insurance Fund. Belgrade, April 2014. Available at: [www.rfzo.rs](http://www.rfzo.rs).

159 Regulation on the Health Care Institutions Network Plan. Official Gazette of RS Nos 42/2006, 119/2007, 84/2008, 71/2009, 85/2009, 24/2010, 6/2012, 37/2012, 8/2014.

tion. In the same year, this sector employed 112,587 staff<sup>160</sup>. Together with the staff not funded by the National Health Insurance Fund, the staff employed on a fixed-term basis and the estimated number of staff in the private sector, they account for 7–8% of the total employment. In developed European countries<sup>161</sup>, the health sector mobilises, on average, about 8% of the labour force, which absorbs about two thirds of the total expenditures on health care. Health care professionals with university-level higher education account for less than one quarter of health care staff (23.9%), those with non-university higher education – 7.5%, and those with secondary education – 43.7%. Health care institutions also employed 24.5% non-medical workers (administrative and engineering-related occupational profiles), i.e. one non-medical worker per three medical workers, which presents a high burden compared to other European countries. Doctors of medicine account for about 80% of the health care professionals with university-level higher education, followed by doctors of dental medicine – 8%, pharmacists – 8% and health care associates – 6%. Among doctors of medicine, specialists are prevalent (73%), as are women, who account for approximately two thirds (65%). In 2012, there were 29,707 licenced physicians and 58,939 nurses employed in the public and private sectors in the Republic of Serbia.

The private sector, developed mostly at the level of private practice, i.e. primary health care, with the exception of private pharmacies, which, as of January 2013, may enter into contracts with the NHIF and dispense medicines and medical devices on prescription, is not integrated in the health care system (private health care institutions generally may not provide health care services to the population at the expense of health insurance). At the end of 2012, about 2,200 private health care service providers operated in Serbia, pharmacies excluded (mainly in the form of polyclinics and doctors' offices, and only about 60 health care institutions)<sup>162</sup>. A total of 3,600 doctors (slightly above 12% of the total number of doctors in Serbia) are formally on record in this sector, although many more – who are mainly permanently employed in public health care institutions – are engaged on a part-time basis. According to estimates, about 10,000 health care professionals of all profiles are employed in the private sector. Although private practices are required to report regularly on the staff employed, services provided and diseases diagnosed or treated, few do so; hence, little is known about the results of their work and effects on population health.

### 2.3.3.2. Key challenges

#### **Challenges relating to accessibility of health care, including inequality in accessibility and inequality in health**

One in five Serbian citizens has statutory health insurance in compliance with Article 22 of the Law on Health Insurance<sup>163</sup>. According to the NHIF data, in June 2012, the total of 1,317,482 persons were registered who fulfilled the requirement for the extension of the health insurance card validity under Article 22. These persons are not insured on the grounds of employment, pensions, self-employment, agriculture, etc. but they fall in the population group exposed to higher health risk, as well as socially vulnerable persons. For these persons, the funds for statutory health insurance contributions are provided from the budget of the Republic. These funds

160 Dr Milan Jovanović Batut Institute of Public Health of Serbia. Health Statistics Yearbook of the Republic of Serbia 2012. Belgrade, 2013.

161 WHO. (2006). Working together for health. The World Health Report 2006. Geneva, WHO, 2006.

162 Unpublished data from a report of Dr Milan Jovanović Batut Institute of Public Health of Serbia.

163 Law on Health Insurance. Official Gazette of RS Nos 107/2005, 109/2005 – corrigendum, 57/2011, 110/2012 – Constitutional Court decision and 119/2012.

are considerably lower than the amount required under the law governing statutory social insurance contributions, which compromises access to health care, not only for them, but also for the overall population<sup>164</sup>. The 65+ population in rural areas, the Roma, persons with disability, refugees and expellees are particularly vulnerable.

The statutory health insurance does not cover approximately 3.3%<sup>165</sup> of Serbian citizens and these people are not entitled to health care provided under the statutory health insurance, except emergency medical assistance.

The elderly living in rural areas are exposed to multiple vulnerability risk factors (old age, poverty, exclusion), which hampers their access to health care services – satellite clinics and outpatient facilities in remote areas are being closed owing to depopulation and rural-urban migration, and home care services cannot be introduced owing to small populations. Integrated local-level services, comprising elderly carers' assistance, palliative care and care for terminal patients, are only emerging; the number of geriatric beds in hospitals and the possibilities for institutional care for these individuals are insufficient.

Due to poverty, unemployment, low education levels, limited access to information, risk behaviour, weak social ties, problems in access to the basic civil rights, etc., the Roma have developed complex, multiple vulnerability, manifested primarily in their health and accessibility of health care services. In comparison with Serbia's mainstream population, the Roma use prevention services less frequently and are less aware of the rules of using health care services, women of reproductive age use gynaecological services less frequently and are more frequently given explanations they do not sufficiently understand. Aiming to overcome such issues, and respecting the traditional Roma lifestyle, the procedure for the inclusion of this population in the statutory health insurance system i.e. for defining the grounds for insurance, has been significantly simplified. In addition, as a result of the introduction of health mediators in 2009, as well as the programme *Implementation of Action Plan for Health Care of Roma*, from 1 January 2009 to 31 May 2014, these people received personal documents and health insurance cards/documents, and the coverage of children and adults by vaccination, comprehensive health checks and early disease detection activities rose.<sup>166</sup> According to the Multiple Indicator Cluster Survey in Roma settlements in Serbia, the Roma infant and under-five mortality has dropped, birth registration has risen, while the coverage by professional assistance during childbirth and content of antenatal health care have practically reached the same level as for the non-Roma population<sup>167</sup>.

With respect to persons with disabilities, physical accessibility of almost all health care institutions has been enhanced; however, equipment that would facilitate the provision of health care services is still missing – dental chairs for persons with disability, gynaecological examination chairs for women with disability etc.

Owing to the economic decline, the number of occupational injuries has decreased, but on average, it is still higher by half relative to EU countries. The Occupational Health and Safety Law has been applicable for seven years already<sup>168</sup>; however, due to problems and delays in its

164 For 2013, RS budget envisaged only RSD 615.05 million for health care of these persons, instead of RSD 15,381.81 million as stipulated in the Law. 2013 Report on Financial Operations of the National Health Insurance Fund. Belgrade, April 2014. Available at: [www.rfzo.rs](http://www.rfzo.rs).

165 National Health Insurance Fund. Available at: [www.rfzo.rs/index.php/about-main-47/onama-info](http://www.rfzo.rs/index.php/about-main-47/onama-info)

166 Results of work of Roma health mediators 01.01.2009 - 31.5.2014. <http://www.zdravlje.gov.rs/showpage.php?id=73>

167 Statistical Office of the Republic of Serbia and UNICEF. (2014). *2014 Serbia Multiple Indicator Cluster Survey and 2014 Serbia Roma Settlements Multiple Indicator Cluster Survey*. Key Findings. Belgrade. Statistical Office of the Republic of Serbia and UNICEF.

168 Occupational Health and Safety Law. Official Gazette of RS No 101/2005.

implementation, the amendment procedure has been launched. The amendments concern its alignment with the EU directives, which, amongst other measures, entail regular monitoring of workers' health and strengthening occupational health care services. The Strategy on Occupational Health and Safety in the Republic of Serbia until 2017<sup>169</sup> foresees reducing the rate of occupational injuries by 5%. The Draft Action Plan for the implementation of the said Strategy has been prepared and its adoption is underway.

### **Inadequate planning of health care professionals' training and recruitment**

The density of physicians in the Republic of Serbia, at 310 physicians per 100,000 population in 2012, was somewhat below the average for the European region (334 per 100,000) and the EU average (346 per 100,000), but higher than that in all former Yugoslav republics. In the same year, the density of nurses was 632 per 100,000 population, i.e. significantly below the average for the European region (766 per 100,000) and the EU average (836 per 100,000). These data do not include health care staff in the private sector, or the employees in the institutions under the competence of other ministries (Ministry of Labour, Employment, Veteran and Social Affairs, Ministry of Education, Science and Technological Development (MoESTD), Ministry of Justice, Ministry of Defence). Of the countries in the region, only Slovenia has a better density of nurses<sup>170</sup>. There are pronounced regional discrepancies in the density of health care staff in Serbia, which cannot be attributed to differences in population health, age structure or needs for health care services. Density is the highest in university centres, whereas in remote rural areas, low density hampers the population's accessibility of health care services. According to a 2009 survey<sup>171</sup>, there are outpatient facilities in only 41% of sample-covered villages, with marked regional differences as regards the development of the satellite clinics and outpatient facilities network, while 13% of the population in rural areas does not have health insurance, the majority of them being farmers and unemployed, which is why they are facing difficulties in receiving health care.

Serbia is characterised by hyperproduction of health care professionals, both those with secondary and those with (non-university or university-level) higher education, as a result of inadequate enrolment policy relating to schools and faculties in the area of health/medicine, which drives youth unemployment. According to the National Employment Service register<sup>172</sup>, about 23,000 health care professionals, including more than 2,000 general practitioners, 80 specialists and 13,000 nurses and medical technicians, were seeking employment in December 2013. According to the NES data for February 2014, there were 3,234 unemployed dentists and 2,605 pharmacists. Although, according to the World Bank experts<sup>173</sup> estimates, the annual number of students enrolling in medical faculties required to provide replacement for the natural outflow of physicians is about 500, almost four times as many enrol in Serbia's five medical faculties.

Health care staff planning needs to be adjusted to the actual needs for various professional profiles, as well as to the society's financial capacities. There is a shortage of specialists in the following branches of medicine: vascular surgery, thoracic surgery, radiology, radiation oncology, nuclear medicine, pathology, medical microbiology, clinical biochemistry, clinical

169 Strategy on Occupational Health and Safety in the Republic of Serbia. Official Gazette of RS No 100/2013.

170 WHO Regional Office for Europe. European Health for All Database (HFA-DB). Available at: [www.euro.who.int/en/data-and-evidence/databases/european-health-for-all-database-hfa-db](http://www.euro.who.int/en/data-and-evidence/databases/european-health-for-all-database-hfa-db).

171 Cvejić S, Babović M, Petrović M, Bogdanović N and Vuković O. (2010). *Socijalna isključenost u ruralnim oblastima Srbije*. Beograd: UNDP.

172 National Employment Service. Available at: [www.nsz.gov.rs](http://www.nsz.gov.rs)

173 Cochrane D, Conroy M, Kampton G, Blair G, Hornby P. (2006). Republic of Serbia Human Resource Strategy 2006/2010. Final Report (The Ministry of Health and World Bank Health project).

pharmacology, transfusion medicine, child and adolescent psychiatry, palliative care, cardiac surgery and anaesthesiology, reanimatology and intensive therapy. Out of the total number of specialists, 28% are older than 55.

There is a shortage of nurses, notably in hospitals, where this hinders the provision of adequate care to patients. On the other hand, the health care system is heavily burdened by administrative and technical staff. As a result of the restrictive recruitment policy in the public health care sector in recent years and amendments to the Budget System Law<sup>174</sup>, there is a concern that adequate density of health care staff throughout Serbia will be compromised.

The existing staff planning practice is fragmented and focused on the public sector only, although it ought to cover the private sector, as well as other sectors employing health care professionals – social protection, military medical sector, railways, police (including prisons).

Staff satisfaction in Serbia's public health care institutions has constantly been on the decline since 2008, with wages as the main source of discontent; by health care levels, satisfaction is the lowest in primary health care, owing to system-wide changes to the funding arrangement and increased workload<sup>175</sup>.

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174 Law Amending the Budget System Law. Official Gazette of RS No 108/2013.

175 Dr Milan Jovanović Batut Institute of Public Health of Serbia. Staff Satisfaction Assessment in State Health Care Institutions in the Republic of Serbia 2012, [www.batut.org.rs/index.php?category\\_id=66](http://www.batut.org.rs/index.php?category_id=66).

### 3. POLICY REFORMS FOR SMART, SUSTAINABLE AND INCLUSIVE GROWTH

#### 3.1. Labour market and employment

##### *3.1.1. Reforms addressing challenges relating to labour demand*

Although not all identified challenges relating to labour demand, or the reforms necessary for improvement of the economic situation which would lead to employment growth, are directly linked to employment policy, the implementation of these reforms is a critical precondition for successful achievement of the set objectives. More specifically, in order to ensure successful implementation of active labour market policies, it is necessary first to undertake measures aimed at finalising the privatisation process, primarily by providing assistance to entities subject to privatisation to attract potential investors or by initiating bankruptcy proceedings. Further, in the area of public sector reform, legislative measures should be taken in order to streamline the public sector<sup>176</sup>. In addition, the most recent amendments to labour legislation, which are aimed at creating a favourable business environment and increasing job creation, should be combined with the measures designed to improve the business environment in terms of labour taxation, including: the restructuring of labour taxes with the aim of increasing progressiveness (including the introduction of up to three income tax rates) in the framework of income neutrality and the abolishment of the minimum social insurance contribution base, followed by the assessment of the fiscal impact of the tax treatment of various legal forms of work (in or outside an employment relationship), in order to identify the direct and hidden costs of hiring workers and the gradual reduction of the general base tax rate on labour and tax burden on labour. These measures should also be complemented by measures promoting investments, such as the simplification of the procedure for obtaining building permits and one-stop-shop system for enterprises, as well as measures for sustaining a more efficient and responsible investment promotion policy, in order to mitigate the effects of the recession. When these preconditions have been met, the achievement of employment policy objectives becomes possible.

#### **Objective 1: Prevent high increase in unemployment**

The most urgent objective of the active labour market policy, in the part related to influencing labour demand, is **to prevent high increase in unemployment resulting from the privatisation of entities with socially-owned and public capital, including public enterprises, and public sector reforms.**

The achievement of the above objective is envisaged through the implementation of a package of measures aimed at preventive action and the timely involvement of persons in active labour

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<sup>176</sup> Laws governing matters relevant to local government operation and functioning – amend the Law on Local Government, regulate the labour status of employees in autonomous provinces and local government units, i.e. specify their rights, duties and responsibilities (adopt the Law on Employees in Autonomous Provinces and Local Government Units and the relevant bylaws); establish a consistent merit-based civil servant system and improve human resources management (implement the Republic of Serbia Public Administration Reform Strategy 2014–2016) – adopt the relevant legislation; establish a new legal framework for a new civil servants' professional development system (implement the Strategy for Professional Development of Civil Servants in the Republic of Serbia and the Action Plan for its implementation 2013–2015) – adopt the relevant legislation.

market policies, targeting:

1. Employees who will be declared redundant in the process of finalising the privatisation, and
2. Employees who will be declared redundant in the process of public sector reform.

### *3.1.2. Reforms addressing challenges relating to labour supply*

#### **Objective 2: Decrease the overall inactivity rate and increase the employment rate**

The general measures required in order to decrease inactivity and prevent further increase of the inactivity rate are as follows:

- Strengthen inter-sectoral cooperation, in particular by introducing a system of integrated services in the areas of education, social protection, employment and attending to youth, with the aim of both preventing unemployment and shortening unemployment spells of the hard-to-employ population groups;
- The National Employment Service will provide more intensive support to unemployment benefit recipients<sup>177</sup> and monitor the job-searching process of this category of persons in order to accelerate their re-employment and prevent work in the informal economy;
- Pilot the concept of social enterprises for the delivery of social care services at the local level, as well as employment of vulnerable groups;
- Design packages of measures aimed at activation and stimulation of employment of the long-term unemployed and other hard-to-employ categories;
- Ensure a more proactive attitude of registered unemployed persons towards job search, by means of obligations stipulated in individual employment plans.
- Develop the concept of seasonal jobs with the aim of activation of the unemployed and reducing the informal employment rate.
- Align the legal framework with the provisions of the ratified International Labour Organization Convention No 181 concerning Private Employment Agencies.

Design specific programmes for vulnerable groups:

#### *Measures for elderly workers (50-64)*

Along with parameter reform of pensions, it is necessary to promote further the concept of active ageing, which is also related to the completion of the privatisation process, which will inevitably lead to a rise in elderly workers' unemployment within a short time. In accordance with the recommendations given in the *National Strategy on Ageing* and the *National Employment Strategy 2011-2020*, it is essential to:

- Include elderly workers, especially high-skilled ones, in IT literacy training;
- Design specific measures for elderly workers, i.e. packages of services aimed at their activation.

*Measures for women*

- Develop specific measures for supporting the employment of women, especially single mothers;
- Stimulate local-level initiatives contributing to job creation for unemployed women with no/very low qualifications;
- Develop women's entrepreneurship promotion programmes.

*Measures for persons with disabilities*

- Design new training programmes for persons with disabilities;
- Design specific programmes promoting employment of persons with disabilities in the open market.

*Measures for low-skilled and unskilled persons*

- Design public works programmes tailored to this group, with a view to their activation in the labour market;
- Improve active labour market policies targeting this group.

**Objective 2.1: Increase access to the labour market for the Roma**

Roma inclusion in the formal labour market is inextricably linked with their emancipation in the spheres of education, housing and participation in public life, and requires systematic efforts and considerable resources. Roma employment in local- and national-level institutions will be encouraged, in agreement with local authorities and in compliance with fiscal restrictions. The priorities are to:

- Introduce preventive measures for young Roma with a view to ensuring their enhanced access to education, reducing the drop-out rate, preventing exclusion from the labour market and reducing overall social exclusion, by implementing pilot projects, improving the evaluation process and introducing new methods and instruments;
- Intensify activities aimed at increasing the motivation for labour market inclusion of the unemployed Roma, especially financial social assistance recipients, and strengthen the cooperation with relevant civil society organisations;
- Develop Roma entrepreneurship and cooperatives, in particular for women;
- Promote good Roma employment practices.

**Objective 2.2: Strengthen the role of employment policy**

*Measures to integrate employment policy goals in the overall economic development strategy:*

- Actively participate in the development of a comprehensive document containing the set strategic goals and lines of action in all important areas of economic development;
- Revise the National Employment Strategy 2011-2020 in line with the country's long-term economic strategy, taking into account the entire set of instruments and interventions available;

- Establish an employment council at the Government level, which will debate the issues of designing and implementing employment policy<sup>178</sup>.

*Measure to increase allocations for active employment policies*

Implement the recommendations from the National Employment Strategy 2011-2020 seeking increase of the funds for ALMPs to 0.4% of the GDP by 2013 (in that year, the ratio stood at only about 0.1%) and to 0.5%<sup>179</sup> of the GDP by 2020.

*Measures to reform the National Employment Service*

The organisation of the National Employment Service's operation should be reformed to reduce the number of the unemployed per employment counsellor and to ensure more individualised and intensive work of the counsellors with the unemployed, who still include many individuals who do not seek employment in earnest. In that regard, the following measures are required:

- Improve the work of NES employment counsellors by introducing the internal certification system;
- Enhance the collection of information about vacancies;
- Intensify employment counsellors' work with active job seekers;
- Promote the process of profiling unemployed persons.

*Measures to improve the evidence-based employment policy-making system.*

Many activities have been undertaken towards strengthening the monitoring and evaluation capacities in the Ministry of Labour, Employment, Veteran and Social Affairs and the National Employment Service, and recommendations for further progress have been made, in particular in the framework of the EU pre-accession assistance. In the coming period, the following should be made mandatory:

- systematic use of ex ante and ex post evaluations of programmes and measures in the area of employment to ensure that active labour market policies correspond to the existing situation in the labour market and the achieved effects;
- use of evaluation results as the basis for the development of the National Employment Action Plan and budget planning, as well as local employment action plans. In that respect, it is necessary to improve the design and effects of active labour market policies through evidence-based actions.

<sup>178</sup> The Law on Employment and Unemployment Insurance (2009) envisages the establishment of the National Employment Council by the Government of the Republic of Serbia. The Law defines the Council as an advisory body, with the task to give opinions and recommendations regarding issues relevant to employment promotion. The envisaged membership of the Council includes: representatives of the Government, representative trade unions and employers' associations, the National Employment Service and employment agencies, associations relevant in the field of employment, i.e. associations protecting the interests of the unemployed (persons with disabilities, national minorities, participants of armed conflicts, women, youth etc.) and employment experts. However, ever since the Law came into force, the Council still has not become operational.

<sup>179</sup> This GDP share of allocations for active labour market policies was set when the National Employment Strategy was adopted, which also envisaged that the allocation would increase every year. However, due to budget restrictions as a consequence of the economic crisis, as of 2011, the allocations for active labour market policies started to continually shrink, falling to a record low of RSD 600 million in 2014. Therefore, it is not realistic to plan larger budget allocations for active labour market policies than the amount projected in the strategy; nevertheless, the plan is to complement the budget allocations by funds from projects and donations.

### **Objective 3: Reduce labour market dualism**

Labour market segmentation in Serbia is manifested primarily in differences between employment in the private sector and that in the public sector (working conditions, job security, wages etc.), as well as employment in the formal economy and that in the informal economy. There are also considerable regional differences in employment. In response to the identified problems concerning labour market segmentation, specific measures are required.

#### *Measures to reduce the difference between employment levels in the private and public sectors*

- Assess the existing legal provisions that reduce the attractiveness of work in the private sector and propose measures for improving them;
- Enhance compliance with the legislation governing employment relationships through efficient and effective inspection

#### *Measures to combat work in the informal economy*

- Develop a concept of reducing the tax burden for minimum-wage earners.
- Reorganise the tax administration with a view to more efficient oversight.
- Enhance the effectiveness of the Labour Inspectorate and inspections.

#### *Measures to reduce regional disparities*

- Develop concrete measures through local employment action plans in response to local labour market needs and evaluation of the measures implemented;
- Provide continuous training to members of local employment councils and other local government bodies, as well as to the staff of National Employment Service branch offices, in designing and implementing local employment policy.

#### *Measures to contribute to reducing structural unemployment*

- Design and target further education and training programmes to better match the needs of the unemployed with lower education attainment, in line with local labour market needs, while placing the emphasis on the practical aspect of training;
- Design active labour market policies to promote the activation of the long-term unemployed.<sup>180</sup>

### **Objective 4: Improve the status of youth in the labour market**

#### *Measures to reduce the number of youth not in employment, education or training (NEET) and youth unemployment*

- Improve the legal and institutional framework and standards for traineeship and internship programmes, such as job practice programmes, with the aim of offering the first work experience to youth leaving the education system;
- Improve the system for informing youth about the possibilities for action in the areas of edu-

<sup>180</sup> Perform new employability assessments, revise individual employment plans, enhance activation by involvement in AJS training and further education and training in order to prevent knowledge from becoming obsolete and improve the level of skills and competencies required for employment.

cation, employment, youth entrepreneurship, European integration and use of EU funds, and other areas, in partnership with youth civil society organisations (CSOs), through support to the work of youth offices and the Young Talents Fund;

- Promote the life-long learning system and develop programmes for youth who have dropped out of school and/or persons without qualifications, which would involve training combined with employment subsidies to employers;
- Develop the concept of student jobs with a limited weekly number of working hours with the aim of activation;
- Further develop the early profiling system for unemployed youth in the NES;
- Develop innovative models and services to support youth employment at the local level through a wide partnership of local stakeholders – education institutions, NES, the business and civil sectors;
- Promote and further develop the career guidance and counselling system in the Republic of Serbia;
- Improve the youth packages.

### 3.2. Human capital and skills

#### **Objective 1: Align educational outcomes with labour market needs by improving quality and relevance of education and training.**

##### *Measures to implement the National Qualifications Framework system in Serbia (NQF)*

- Prepare the legal and institutional framework for the functioning of NQF;
- Reference the NQF within the European Qualifications Framework (EQF);
- Establish the Catalogue (Register) of National Qualifications, accrediting national qualifications (qualification standards) by sectors and at all levels, which are used as the basis for adopting education and training programmes;
- Establish a system for prior learning recognition with the aim of attaining qualifications;
- Establish sectoral councils;
- Establish the procedure for the recognition of foreign qualifications.

##### *Measure to develop relevant education and training programmes consistent with the needs of the labour market and the society as a whole*

- Develop a single framework for preschool curricula;
- Develop new integrated teaching/learning programmes (curricula) for general (primary and secondary) education, which will ensure the development of key competencies, with special emphasis on developing proactivity;
- Develop new integrated teaching/learning programmes (curricula) for vocational education and training, based on qualification standards, which will ensure the development of key and professional competencies, with special emphasis on developing entrepreneurship and practical instruction;

- Develop flexible models for teaching organisation as a prerequisite for the delivery of various models for practice in vocational education and training;
- Establish a system of incentives whereby social assistance will be combined with education/training and volunteering programmes, so as to increase employability and give the unemployed a chance to apply themselves to studying and acquiring relevant competencies.

*Measure to improve the quality of initial education, professional development and professional cooperation among teachers at all levels of education*

- Analyse the existing curricula for initial teacher education and their modification, which would result in future teachers' better development, during their initial education, of competencies required for the teaching profession;
- Analyse the effects of the existing professional development system and its upgrading so as to provide for a more efficient development of professional competencies of teachers;
- Develop an e-platform for teachers to exchange good practices;
- Establish a system for regular monitoring and assessment of teachers' needs to align demand and supply in the area of professional development.

*Measures to set up a quality assurance system at all levels of education and training*

- Set standards for the functioning of educational institutions (standards for the implementation of education and training programmes at all levels);
- Set up an education and training monitoring and evaluation system at all levels;
- Align teaching processes with the school-leaving examination outcomes in primary and secondary education;
- Raise the quality of existing examinations (the assessment of key competencies should be included to a greater extent) and improve the capacities for administering various examinations so as to ensure that all students or participants, as appropriate, take examinations under the same conditions;
- Introduce general, vocational, and artistic baccalaureates to test key and specific vocational or artistic competencies, as appropriate, and align vocational and artistic baccalaureates with the general baccalaureate so as to allow for vertical mobility of students;
- Introduce a national assessments programme, which would be used as an instrument for monitoring the effects of the changes being introduced (new curricula, improving the quality of teachers, improving textbooks and teaching aids) on the quality and equity of education;
- Ensure Serbia's participation in the PISA 2018 and TIMSS 2019 international assessments;
- Improve the existing accreditation system.

**Objective 2: Improve the overall education level of the population**

*2.1. Measure to develop the system of life-long learning*

- Establish a database of the existing life-long learning programmes in the Republic of Serbia;
- Liaise with countries in the region to gain access to registers of life-long learning programmes and regulation mechanisms for life-long learning in these countries;

- Establish institutional and legal arrangements for life-long learning, accompanied by mandatory quality assurance measures and introduce incentives for increasing the participation of adults in life-long learning programmes;
- Provide systemic support for expanding the network of accredited institutions and organisations which will deliver life-long learning programmes;
- Establish a register of publicly recognised life-long learning providers and programmes.

### *2.2. Measure to raise the level of education attainment of vulnerable groups and reduce regional disparities*

- Establish a system for monitoring and collecting data on students at all education levels (single education information system);
- Introduce dedicated support programmes for people from vulnerable groups in attaining their first qualification, including career guidance (the programme should ensure that members of vulnerable groups attain their first qualifications at ISCED level 3);
- Establish a system for early identification of children at increased risk of early school leaving and children at risk of being left out of education (e.g. asylum seekers' children, children without identity documents, etc.);
- In cooperation with the relevant ministries, local governments and educational institutions, establish a coordinated system for early school leaving prevention, intervention and compensation;
- Improve teaching assistants' capacities and raise their effectiveness;
- Ensure the adaptation, procurement and availability of textbooks, teaching materials and teaching aids in line with students' needs, the procurement of assistive technologies and training in using them, as well as other forms of additional support;
- Develop a vocational/career guidance and counselling system at all levels of education in cooperation with the ministries in charge of youth policy and employment, as well as the NES and the civil sector;
- Develop education programmes and study courses adapted to the needs of employed people wishing to continue their education, including improvement of the existing legal framework;
- Develop a package of incentives intended for higher education with the aim of providing support to students facing difficulties during their studies.

### *2.3. Measure to increase the accessibility of pre-school education*

- Develop dedicated mobile pre-school programmes to enable the preparation of children from remote rural areas for school, thus preventing early school leaving;
- Develop dedicated programmes for mobile pre-school institutions' work;
- Increase the capacities of pre-school institutions through dedicated public-private partnership programmes;
- Establish an accreditation system to encourage private pre-school institutions to become an integral part of the pre-school education system;
- Introduce dedicated pre-school attendance support programmes for children aged 3-5.5 living in poverty and/or with disability, in cooperation with the Ministry of Public Administration and Local Government (MoPALG) and the Ministry of Labour, Employment, Veteran and Social Affairs (MoLEVSA).

### **Objective 3: Increase education system efficiency**

*Measure to establish the information system ensuring preconditions for efficient education system management*

- Develop an education information system by establishing registers in pre-school, primary, secondary and tertiary education, as well as registers of pupils' and students' living standards institutions.

*Measure to align the education system of Serbia with EU education trends*

- Establish the national agency for Erasmus+/Horizon 2020;
- Ensure the participation of representatives of the ministries, institutes, councils and other bodies in different EU networks and bodies (Directorates General, advisory groups, networks, bodies) and report regularly on the implementation of education processes, such as the Copenhagen Process, the Torino Process, the Bologna Process, the Bruges Communiqué, etc.;
- Participate in the EU open method of coordination (OMC) in the area of education.

*Measure to optimise the network of education institutions (primary and secondary schools and higher education institutions founded by the Republic of Serbia), pupil and student halls of residence*

- Optimise the network of primary and secondary schools and secondary school programmes that would be acceptable, realistic and effective;
- Optimise the network of public higher education institutions to ensure high-quality higher education based on the scientific research conducted in these institutions;
- The optimisation of the network of institutions and programmes is a permanent activity which will be accompanied by further advancement of pupils' and students' living standards through the rehabilitation of existing facilities and the construction of the new ones.

*Measure to develop an education funding model based on the analysis of the existing education funding system and the activation of the existing education capacities*

- Develop a pre-university education and training funding model;
- Develop a higher education funding model;
- Develop an adult education funding model;
- Develop a funding model for pupils/students' living standards institutions.

### 3.3. Social inclusion and social protection

#### 3.3.1. Directions of further changes and measures in the sphere of social and child protection

#### **Objective 1: Increase the coverage and improve the adequacy of cash benefits**

##### 1.1 In the financial social assistance scheme

Measures to improve *adequacy* which would, owing to the nature of the scheme (income supplement), at the same time entail increasing the coverage of the poor:

- Lower the disincentive to employment by reviewing the financial social assistance eligibility requirements, stipulate mechanisms for stronger links between centres for social work and the NES and establish a link with measures implemented by the NES with a view to activation and employment of financial social assistance recipients, and also introduce a specified number of hours of community service for financial social assistance recipients fit for work;
- Increase the weightings (benefits) for children and youth with disabilities;
- *Relax property-related requirements*, in particular raise the land ownership ceiling *depending on land quality for elderly households*, without increasing the benefit amount. In that regard, concrete improvements require additional research;

##### 1.2. In the child allowance scheme

Measures to improve *adequacy*:

- Improve benefit adequacy for children of secondary school age (consider a *one-off benefit upon successful completion of a school year*);
- *Increase the child allowance amount for children with disabilities/consider the introduction of universal entitlement to child allowance for children with the most severe disabilities.*

*Measures to increase the coverage of the poor:*

- An increase in the coverage by child allowance could be achieved by removing certain barriers (such as the *requirement for children's parents to be covered by health insurance*);
- Award the entitlement to four, rather than the first four children in the family;
- Change the modality of *assessing farming income*, since cadastral income is an obsolete and inadequate concept.

##### 1.3. In the housing scheme

- In addition to the cash benefit, in collaboration with the line ministry and local governments, implement a housing improvement programme in substandard settlements.

### **Objective 2: Active inclusion**

- In line with the goal of active inclusion, *improve the legislation governing the activation of financial social assistance recipients*, which should be the first step towards integrated services for the poorest, both in the area of employment/work and in the interest of returning youth to education and further training or retraining;
- Establish and develop a sustainable cooperation mechanism with a view to mobilisation of community resources to create new work opportunities;
- Enhance accessibility of buildings for public use, public transport and work environment and ensure full accessibility of public institutions' websites to all citizens, including persons with disabilities and the elderly.

### **Objective 3: Increase support to (biological) families at risk, continue the deinstitutionalisation process and develop non-institutional community-based services.**

*Support to families and deinstitutionalisation inevitably entail the development of non-institutional social care services.*

- A prerequisite for the introduction and expansion of services is the adoption of a *bylaw on earmarked transfers*, which would regulate additional funding of social care services from the national level in a transparent way and with due attention to reform priorities. The legal provisions of 2011 foresee the precise definition of three types of earmarked transfers, of which those to be awarded to underdeveloped local governments are the most important in the short term;
- In order to continue the deinstitutionalisation process, it is necessary to launch programmes aimed at *strengthening local capacities to establish supportive housing services for persons with disabilities, which represent an alternative to residential care*. Strengthening capacities would entail the development of ready-to-use packages of instructions and models for the introduction of services at the local level and a series of training events for interested local governments, professionals and civil sector organisations, as well as potential service providers. It would also be desirable to consider shifting the responsibility for funding this service, even in the most developed local governments, to the national level. It is only in the most developed local governments that professional capacities for further development of this service exist, but they are not willing to earmark additional funds for its expansion. The “money follows the client” principle should be piloted in the process of deinstitutionalisation of care for persons with disabilities;
- Provide both funding and professional capacities needed to expand and develop non-institutional services, such as personal assistance, supportive housing for young people leaving the care system, shelters for domestic violence victims and children's personal attendants;
- Upgrade the capacities of the social protection system to ensure access to rights and provide services to trafficking victims.

### **Build and strengthen mechanisms and capacities for non-material support to biological families at risk**

- Amend the rulebook on intersectoral committees, change their mode of operation;
- Develop a training programme on supporting families at risk of having their children separated from them and then train professionals in the social protection sector to deliver these

programmes also to the service providers from the civil sector;

- Define procedures for the separation of children from biological families (analysis and adoption of guidelines). Before these procedures are defined, it is necessary to analyse the practice of separating children from biological families, identify indicators of inadequate exercise of parental rights and discharge of parental duties, and set a standard procedure for the separation of children from biological families in conformity with the Convention on the Rights of the Child, Family Law and Law on Social Protection. After guidelines are adopted, compliance oversight mechanisms should be established at the central level;
- Introduce the practice of early identification and provide support to pregnant women at risk (this is a cross-sectoral project that must inevitably be defined in cooperation with the health sector);
- Regulate in more detail the needs assessment and planning of support to children with developmental disabilities and their families/guardians, including standards for the development of timely stimulation and rehabilitation programmes.

*For successful continuation of the deinstitutionalisation process, the following is also important:*

- As the first prerequisite, develop an *institution transformation plan*, also in order to use more efficiently the existing infrastructure and professional resources as the number of residents in institutions decreases;
- Enhance the development of kinship care, *kinship foster care and foster care for children with disabilities (and foster care for children victims of trafficking in human beings and other forms of violence)*.

#### **Objective 4: Improve the long-term care system**

In the attendance allowance scheme, it is necessary to:

- Review the rationale for the existence of benefits under two systems – an insurance-based benefit (PDIF) and a social benefit under the social protection system;
- Analyse the adequacy of the basic attendance allowance amount and the need to introduce multiple benefit levels between the basic and the increased amount that would be tied to the scales (levels) of support needed;
- Analyse in more detail the modality of awarding and the application of functional criteria for the award of attendance allowance by the PDI Fund's Committee, thus facilitating higher accessibility of the entitlement to persons with intellectual and mental health difficulties;
- Disseminate information on entitlements and provide assistance in applying;
- Link cash benefits to the relevant services.

In the medium term, improving long-term care will largely depend on establishing cross-sectoral links between health care and social protection; specifically, this entails the following:

- Define a network of social and health care institutions, as foreseen by the Law on Social Protection of 2011;
- Define the role of residential care in the palliative care system;
- Introduce a protocol on improving the care for clients who need both social and health care services.

### **Objective 5: Improve service quality, strengthen oversight and regulatory mechanisms, monitoring and evaluation**

A prerequisite for monitoring and evaluation, service quality improvement, as well as development of social protection as a whole, is the adoption of realistic social (and child) protection improvement programmes at the national and local levels for the forthcoming medium-term period (2015–2020). At the national level, a new social protection strategy should be adopted as well. Considering that local strategies and action plans adopted in the previous period have expired, the planning process should commence as soon as possible.

#### *Service quality*

- Complete the process of *licensing service providers and professionals* in the area of social protection, in the interest of improving service quality. In the next few years, ensure improving the quality and expanding the range of accredited training programmes for professionals, on the basis of which licences are obtained. Revise the list of accredited programmes on an ongoing basis, in line with the identified needs for capacity building in social protection;
- Compute the cost of service per client for the minimum service quality standard;
- Formulate and implement a support programme for non-state social service providers. Improve outreach work, which will enable detection of vulnerable individuals and families;
- In the short/medium term, improve the quality of care in institutions that will maintain their residential care function, in accordance with the residential institution transformation plan, independently of putting community-based services in focus of system reforms.

#### *Regulation*

- Introduce elements to ensure service individualisation in line with individual clients' needs;
- Analyse the practice of developing and applying eligibility criteria for clients of non-institutional social care services.

#### *Oversight, monitoring, evaluation*

- Introduce monitoring and evaluation of social care service quality (including clients' human rights protection aspect and client satisfaction assessment);
- For the purpose of monitoring service quality and client protection level, define and monitor indicators (availability and quality of individual social care services at the local level), define desired outcomes (such as educational outcomes for children in foster care), and define specific client groups. Thus, for instance, it would be important to identify the Roma from substandard settlements as a separate group in which clients, as well as outcomes at the level of public institutions and within different sector-specific policies, should be monitored. This would overcome the problem of subjective (non-)declaration of ethnic affiliation, and practical policies would have an instrument whereby they would focus on the poorest and most vulnerable members of the Roma population;
- Expand regional foster care and adoption centres (establish two more centres) and define and improve their oversight function;
- Exchange experiences and select good practices in the area of social care services established at the local level, which have proved to be a good evaluation instrument and an important motivation factor for improving the services within the mandate of local governments;

- Strengthen inspection services at the national level, as well as in entities that conduct inspections as affairs delegated to them (increase the number of staff, introduce a new organisation and work methods).

**Objective 6: Link centres for social work to health care, education and employment service providers, as well as to the police, the judiciary, CSOs representing certain vulnerable groups, the Red Cross and relevant local government departments**

In view of the multiple risks and deprivation factors, cross-sectoral, local and national networking is necessary:

- Networking also entails spreading the practice of procuring documents on behalf of clients, supporting particularly vulnerable groups in applying for certain entitlements, while in the long term, it is necessary to fully link the different sectors' information systems to ensure that clients have access to their social rights without administrative barriers. This is particularly important for the undereducated, elderly or persons with intellectual difficulties;
- Enhance the system of cooperation between centres for social work and other authorities with a view to early detection, better protection for clients and integrated approach;
- Analyse, align and redefine the role of local-level stakeholders who emerged during the implementation of different projects targeting individual vulnerable groups and identify their cross-sectoral potentials (Roma coordinators, health mediators, youth offices, teaching assistants etc.).

### 3.3.2. Future changes and measures regarding the pension system

#### Introductory remarks

In view of the scale of the implemented pension system reforms, the on-going reforms, as well as the fact that the sustainability and adequacy of the pension system will largely depend on the developments in other areas (demographic trends, employments, etc.), in the coming period it will be necessary to assess the possibilities for further improvements in this area, which would result in proposals for legal amendments. Given that the key challenges of the pension system – sustainability and adequacy – are usually difficult to meet at the same time, and that individual challenges are intertwined, each of the proposed measures has an impact on several objectives, regardless of the fact that it is listed under one of them.

#### Improvement of the pension system financial sustainability

##### Objective 1: Improve the system of pensions accrued on the grounds of increased pensionable service

*Measure 1.1. Assess the possibility of terminating the disbursement of the portion of pension accrued under special regulations, in case of re-entry into insurance*

In the Serbian statutory social insurance, the disbursement of the old-age pension is not terminated if the pensioner becomes insured again. Some categories of insured persons (authorised

members of the MoI, Security Intelligence Agency (SIA) and related authorities), in addition to being entitled to increased pensionable service, are also subject to special, more advantageous conditions for retirement and calculation of pensions; in those cases, the difference between the pension level calculated according to the general rules and the amount received is funded from the national budget. As these individuals frequently become employed again after retirement, this raises the issue of justification for national budget funding for the portion of the pension accrued under more advantageous conditions. With a view to achieving a higher level of equity in the system, the MoLEVSA should assess the possibility of terminating the abovementioned increase while the pensioner is insured and propose the modality of implementing this measure.

*Measure 1.2. Assess the possibility of abolishing the 20% pension increase for the insured who exercise their right to pensions under special legislation.*

Certain categories of insured persons (authorised members of the MoI, SIA and related authorities) exercise their right to pensions under special legislation and, in addition, when pension amounts are calculated, their pensions are increased by 20%. In view of the need to improve equity in the system, and given that, according to RS PDIF statistics, those insured persons receive pensions for even up to 30 years after retirement, i.e. almost twice as long as other pensioners, the proposal is that in 2016 the MoLEVSA should consider abolishing the said increase and propose the modality of implementing this measure.

*Measure 1.3. Adopt bylaws on increased pensionable service for special categories (MoI, SIA, etc.)*

By amendments to the Law on Pension and Disability Insurance of 2014, the possibility of being entitled to increased pensionable service was abolished for employees in jobs and positions of an administrative and technical nature, which was the case primarily in the MoI, and also in related authorities. In the coming months, the Minister competent for statutory pension and disability insurance, together with ministers competent for the abovementioned areas should adopt the bylaws (rulebooks) consistent with the amendments to the Law. This will reduce the number of insured persons who are entitled to increased pensionable service and who, accordingly, may retire under more advantageous conditions. It is estimated that this measure will affect about 10 thousand people.

*Measure 1.4. Assess the possibility of reforming the concept of increased pensionable service*

Individuals working in particularly strenuous jobs, hazardous to health, or in jobs which cannot be satisfactorily performed at an older age, are entitled to increased pensionable service, which constitutes the grounds for more advantageous conditions for retirement. The entitlement to increased pensionable service is governed by the Law on Pension and Disability Insurance and various rulebooks. An additional contribution is paid for these people. The concept of increased pensionable service should be revised, so that this matter is regulated in a consistent manner (one of the options is the passage of a separate law); in addition, the criteria for entitlement to increased years of service should be improved and the contribution level and retirement conditions for this category of insured persons should be set in an adequate and fair way. The proposal is to carry out an assessment of this area and develop a proposal for legal amendments. The responsible authority is the MoLEVSA with relevant expert assistance, and additional funding would most probably be required.

**Objective 2: Improve efficiency of pension and disability insurance implementation***Measure 2.1. Improve databases in the Central Registry*

The Central Registry of Statutory Social Insurance (CRSSI) has been established in order for insured persons and the contribution collection and oversight authorities to have access to information on the registration of employees and other insured persons for insurance, as well as on the contributions paid. The CRSSI should harmonise its IT platforms with the Tax Administration in order to ensure full exchange of information on insured persons and contributions. Thus, the data on the payment of social insurance contributions will be recorded at the individual level, which will improve the efficiency of contribution collection and thereby also increase the RS PDIF revenues, reduce informal economy and improve the protection of employment and social insurance rights. This will also ensure more efficient operation of the RS PDIF in the procedures for the exercise of rights under pension and disability insurance. In addition, an increasing number of users (state authorities, institutions and employers) submit a growing number of different requests to the CRSSI, which thus rises in importance within the state administration system. Additional funding sources should be provided to improve and expand CRSSI operation. The implementing parties would be the CRSSI and the Tax Administration, possibly with external technical assistance.

*Measure 2.2. Improve efficiency of RS PDIF operation*

The activities aimed at improved organisation and upgraded business processes of RS PDIF should be continued in order to achieve better efficiency in the implementation of the pension and disability insurance, as well as to provide better quality services to the insured persons and social insurance beneficiaries. Managing and organisational capacities need to be developed further through the management and planning of human resources. IT platforms should be modernised so that they become compatible with CRSSI and Tax Administration. It is also necessary to build administrative capacities of the institutions in charge of social security coordination, particularly in view of the future electronic exchange of data as part of the cooperation of the social security institutions with EU Member States.

**Objective 3: Adapt the statutory social insurance parameters to demographic changes***Measure 3.1. Assess the possibility of tying the retirement age to changes in life expectancy*

The increase in the population's lifespan requires adjusting the retirement age to ensure that the ratio of the retirement span to the length of the working life is kept at an acceptable level and that pension system sustainability is not jeopardised. In practice, raising the retirement age is often unrelated to the recent increase in lifespan, its current and estimated future values. An assessment of options for linking the retirement age to demographic changes is proposed to be performed in 2019 or 2020, and proposals for legal amendments would be developed on the basis of this exercise. By then, there will be a number of comparative options to assess, and the initial effects of the solutions applied so far in Europe will be known. The assessment is the responsibility of the MoLEVSA, and the exercise will require additional funding sources and expert assistance.

*Measure 3.2. Assess the possibility of revising early retirement requirements and parameters*

With the amendments to the Law on Pension and Disability Insurance passed in 2014, the conditions for retirement before reaching the general retirement age were severely tightened with the aim of reducing the number and proportion of people who retire under those conditions. However, the working and living conditions are worse than in most European countries, as are the demographic parameters, in particular the lower life expectancy of the elderly population. The conditions for early retirement are stricter compared to those in neighbouring countries – Croatia and Montenegro, as well as other European countries. Therefore, it is proposed that, in 2017, when the initial effects of the most recent legal amendments are known, the MoLEVSA examine the justification for the level of retirement requirements and early retirement requirements for individuals who have accrued long pensionable service and propose legal amendments.

**Objective 4: Improve other rights under pension and disability insurance (unrelated to old-age pension)**

*Measure 4.1. Assess the possibilities for reforming the concept of disability*

In the course of the reform, the concept of disability protection in the pension system was changed significantly and the requirements were tightened considerably, even in comparison with international practices. However, with the marked tightening of old-age and early retirement requirements, the overall retirement requirements became disproportionately strict in relation to Serbia's considerably lower life expectancy and higher specific mortality rates compared to other European countries. An assessment of the possibility for changing the concept of disability in the statutory part of the pension system is proposed, together with development of a proposal for legal amendments. The assessment would be conducted in 2017 by the MoLEVSA in cooperation with the RS PDIF. At this time, it is not possible to assess precisely whether additional expert assistance and additional funding are required.

*Measure 4.2. Assess the possibility of reforming the entitlement to survivors' pension*

The spouse and children of a deceased insured person or pensioner are entitled to a survivors' pension, as are other family members, under special conditions. However, changes in the labour market (women's activation and extension of the working life) require adjusting the entitlement to survivors' pensions, which is undertaken in different European countries. Accordingly, an assessment of options for changing the entitlement to survivors' pensions in Serbia is proposed. The responsible authority is the MoLEVSA, with expert assistance; the study would be conducted by 2018, and additional funding would be required. Legal amendments would be proposed on the basis of the results of the study.

**Maintaining pension adequacy and safeguarding the living standard of the elderly**

**Objective 5: Improve safeguarding of the minimum living standard of the elderly**

*Measure 5.1. Consider the concept of minimum pension and alternative measures for safeguarding the minimum living standard of the elderly*

The minimum living standard of the elderly population is mainly safeguarded through the pension system, by means of minimum pension. The difference between the pension amount calculated according to the Law on Pension and Disability Insurance and the minimum pension

amount is funded from the national budget. The living standard of the population not entitled to pensions is safeguarded through the general social protection system. It is necessary to assess the adequacy of the current modality of safeguarding pensioners' living standard, considering also the different approaches to this problem in European countries. The assessment should be conducted by the MoLEVSA with the necessary expert assistance. Additional funding will probably be required. On the basis of the findings, the MoLEVSA should propose the modality of regulating this matter in the future.

### **Objective 6: Maintain pension adequacy**

#### *Measure 6.1. Assess the modality of uprating pensions and the general point value*

The two main factors that determine the pension amount and its development throughout the retirement span are the pension setting modality and the pension uprating modality. *The general point* is the parameter used in pension calculation to value earnings throughout an insured person's working life. It is necessary to assess the possibilities of ensuring adequate wage replacement, as well as preventing significant nominal differences in pension amounts between pensioners with similar employment histories who retire in different years.

Pensions are uprated twice per year, in April and October, but the latest amendments to the Law stipulate that pensions will not be increased as long as the pension expenditures are above 11% of the GDP. It is proposed to assess the pension uprating period and the parameters on the basis of which their amounts are uprated.

The said parameters are interdependent and should be the subject of a comprehensive study, which should be conducted by the MoLEVSA with the necessary expert assistance. In view of the fact that economic development is a necessary precondition for the said study to be justified, it should be conducted no earlier than 2017. On the basis of assessment results, the MoLEVSA should develop a proposal for legal amendments, in agreement with the Ministry of Finance.

#### *Measure 6.2. Reform farmers' insurance*

Farmers' pension insurance considerably reduces the risk of poverty for the elderly rural population, which is more affected by this risk, but the sustainability of this system is uncertain. The options for the future of this part of the system should be assessed and a proposal for legal amendments should be developed in line with the results of the study. The responsible authority is the MoLEVSA, but the role of the ministries in charge of finance and agriculture is essential.

### **Objective 7: Enhance the role of voluntary pension funds in the pension system**

#### *Measure 7.1. Assess the ways to enhance the role of voluntary pension funds within the pension system*

The unfavourable economic environment, low living standard and underdeveloped capital market largely restrict the development of the voluntary pension funds and pension plans system. However, regardless of this, there are possibilities to improve this part of the pension system; therefore, its desired role in the future should be defined. In most countries, statutory pension insurance, especially that publicly run, has a dominant role; yet, there are differences in the

relative importance of different parts of the system. In 2016 and 2017, the Ministry of Finance (MoF) and the NBS should assess the possibilities of improving the situation and status of voluntary pension funds within the pension system and propose measures, i.e. the necessary legal amendments, in consultations with the MoLEVSA.

### *3.3.3. Directions of further changes and measures in the sphere of population health care and health care system*

#### **Lines of action in response to challenges in the accessibility of health care to the population**

The group of objectives and measures pertaining to increasing health care accessibility primarily includes better financial accessibility of health care to all vulnerable groups and, in particular, increasing accessibility to the poor and those aged over 65, as well as higher physical accessibility to persons with disabilities and cultural accessibility to the Roma, reducing discrimination against these groups and their inclusion through the development of integrated health care services.

#### **Objective 1: Ensure better financial and physical accessibility of health care to all vulnerable groups**

*Measure 1.1. Increase budget transfers for health care of persons at increased risk of disease and socially disadvantaged population in conformity with the Statutory Social Insurance Contributions Law.*

In 2013, the funds earmarked within the Republic of Serbia budget for health care of persons at increased risk of disease under article 22 of the Law on Health Insurance were 25 times lower than foreseen by the Statutory Social Insurance Contributions Law; in 2012, the said funds were 21.5 times lower, which indicates that the gap is widening and the accessibility of health care is compromised. Accessibility is compromised not only in respect of vulnerable groups, but also in respect of Serbia's total population, as the services provided are funded from the total funds of the National Health Insurance Fund. The amount of these funds should be increased gradually until it reaches the budgetary allocation amount defined in the Statutory Social Insurance Contributions Law and calculated on the basis of the defined health insurance contributions.

*Measure 1.2. Form mobile teams in the primary health care centres of dispersed municipalities to visit the elderly, persons with disabilities and Roma settlements in remote areas*

In the municipalities where the establishment of home care services is not possible, form mobile teams (a doctor and a nurse with a car, a mobile laboratory and a mobile ECG device at their disposal) for field work; they would take regular rounds of settlements without satellite clinics and provide health care services to the elderly and other vulnerable groups affected by hampered accessibility of health care services.

*Measure 1.3. Establish telephone health advice services for the elderly and persons with disabilities in primary health care centres.*

Telephone health advice service for persons with disabilities and the elderly requires minimum investment, and enable these people and their family members in remote rural areas, as well as

urban and suburban areas, to get support and assistance when they need an explanation, advice or to make an appointment for an intervention in treatment or daily care.

*Measure 1.4. Provide regular institutionalised training to volunteers from the non-governmental sector in assisting the elderly and persons with disabilities.*

Partnership with the non-governmental sector improves the accessibility of health and social care services to the elderly and persons with disabilities and provides a better insight into their daily needs. Organised training of Red Cross and other non-governmental organisations' volunteers for ongoing cooperation in the provision of specific services (e.g. health education or home care) and strengthening community social capital.

## **Objective 2: Ensure better accessibility of health care to the population over 65**

*Measure 2.1. Develop and strengthen work in the areas of home care and palliative care in the primary health care centres of all "elderly" municipalities in Serbia*

Extensive training of health care professionals and development of palliative care services at the primary health care level were launched under an EU project. These activities in the areas of home care and palliative care should be continued in all municipalities with elderly population (owing to the nature of diseases – chronic degenerative and malignant, multiple morbidity, as well as social isolation without the possibility of receiving assistance from the family, relatives or neighbours).

*Measure 2.2. Continue the establishment of dedicated palliative care units within extended treatment and care wards in inpatient health care institutions with a stock of beds in line with the needs imposed by the health status of the elderly in the municipality*

Continued establishment of dedicated palliative care units within extended treatment and care wards in general hospitals with a stock of beds in accordance with the Palliative Care Strategy and in line with the needs of the population of the municipalities covered by the relevant general hospital or other inpatient health care institution.

*Measure 2.3. Equip the polyvalent community nursing service better to visit and assist the elderly suffering from chronic mass non-communicable diseases*

The existing polyvalent community nursing services should be strengthened and equipped for assessing the risk of social exclusion of elderly households and providing health care services to single elderly persons and those dependent on others' care and assistance.

## **Objective 3: Ensure better accessibility of health care to persons with disabilities**

*Measure 3.1. Install access ramps in all health care institutions where they do not exist*

Although most primary health care centres in urban areas have access ramps, these ramps must be installed in rural areas as well and thereby improve the accessibility of health care to persons with disabilities.

Provide guiding strips for the movement of blind and visually impaired people in conformity with the Building and Planning Law and the Rulebook on Technical Standards for Planning, Design and Construction of Structures, ensuring unhindered movement and access for persons with disabilities, children and the elderly.

*Measure 3.2. Procure gynaecological and dental chairs adapted to the needs of persons with disabilities.*

Gynaecological and dental chairs adapted to persons with disabilities are very expensive, but the needs of persons with disabilities must be taken into account in the procurement of new equipment – especially in major cities, where regular use of health care services would be enabled and their health improved.

#### **Objective 4: Ensure better accessibility of health care to the Roma population**

*Measure 4.1. Expand the Roma health mediator network*

All municipalities with Roma settlements should have a health mediator trained and recruited by the primary health care centres to improve accessibility of health care to the Roma. They are usually part of the polyvalent community nursing service team and, in cooperation with the team, they assess the health and social needs of the Roma population and provide health care services.

One of the key tasks of the health care services and Roma health mediators, in cooperation with municipal health councils, is to assist the Roma without identity documents in obtaining those documents in order to access their right to health care through their selected physicians in the municipal territory. Although significant results have been achieved by the mediators so far, the Roma population should be fully covered by health care and included in the system on the basis of health insurance cards.

*Measure 4.2. Implement the Action Plan for improving Roma health*

The Action Plan for improving Roma health has the following objectives: to ascertain the Roma health status, to improve the exercise of the right to health care by the Roma, to enhance health care accessibility and to improve the living environment. Local governments should be encouraged to adopt and implement local action plans addressing this area.

Activities are carried out as part of projects by primary health care centres and public health institutes in cooperation with Roma civic associations.

#### **Objective 5: Improve occupational health and safety and health care of the economically active population**

*Measure 5.1. Adopt an Action Plan for the implementation of the Occupational Health and Safety Strategy*

As the national Occupational Health and Safety Strategy is in place, its Action Plan, which has already been prepared and specifies occupational health and safety measures and activities, should be adopted and its implementation commenced.

*Measure 5.2. Improve oversight and implementation of occupational health and safety measures*

By strengthening inspections, it is necessary to ensure better oversight of occupational health and safety and encourage employers to implement occupational health and safety measures rigorously.

*Measure 5.3. Strengthen occupational health care (occupational medicine) services*

Occupational medicine services at the primary health care level should be strengthened for carrying out comprehensive and periodic health checks with a view to workers' health preservation and promotion and early detection of diseases and disorders.

*Measure 5.4. Increase the coverage of the unemployed active population by health care*

The unemployed active population should be covered by health promotion and early disease detection measures by means of preventive health checks and screening for malignant diseases.

**Objective 6: Reduce discrimination against vulnerable groups and improve their inclusion***Measure 6. 1. Implement and monitor the implementation of the Law on Patients' Rights.*

It is necessary to ensure careful monitoring of the implementation of the Law on Patients' Rights by coordinated collection of work reports of advisors for the protection of patients' rights and health councils, together with analysing the data and taking corrective measures to remove the problems. It is also necessary to collect and monitor the reports of protectors of insured persons' rights. The detected problems concerning violations of patients' and insured persons' rights should be made available to the public through the websites of the Ministry of Health, the National Health Insurance Fund and health care institutions.

*Measure 6.2. Raise vulnerable groups' awareness of the rights to health and patients' rights.*

The entire population is insufficiently aware of the rights to health, rights under health insurance and patients' rights in the health care system; it is, therefore, necessary to take action towards the promotion of patients' rights through the mass media, lectures at the local level and developing posters, brochures and articles with the basic information on patients' rights, which would be available to clients of health care services in health care institutions. Provide this information on the web pages of the Ministry of Health, National Health Insurance Fund and health care institutions.

*Measure 6.3. Develop integrated services in the local community (health, social and education)*

The development of integrated services in the local community would enable the fulfilment of health, social and education needs of the entire population, in particular vulnerable groups, by establishing better cooperation among health care, social protection and education institutions, local government and associations. Elderly carers' assistance combined with community nurses' visits to elderly persons or those dependent on others' care and assistance, cooperation with the non-governmental sector and volunteers' assistance, as well as cooperation with education institutions can meet complex needs for health and social care, as well as the need for information, knowledge and skills in the area of health promotion and disease prevention.

*Measure 6.4. Implement and oversee the implementation of the Law on the Protection of Persons with Mental Health Difficulties*

The implementation of the new Law on the Protection of Persons with Mental Health Difficulties should be monitored carefully and the possibilities of higher community involvement in the integration of persons with mental health difficulties in the activities of daily living, development of non-institutional activities and forms of care for these persons should be considered.

**Lines of action in response to challenges in health care staff planning and education**

In line with a national health care human resources strategy, which is currently missing, the lines of action relating to health care staff planning and education would include improved human resources management in the health care system and attaining the health care system goals; better analysis and planning of health care staff needs would optimise the number of students enrolled in schools and faculties in the area of health/medicine, as well as the number of administrative and technical staff, whose unfavourable proportion may present a burden on the health care system.

**Objective 1: Improve the planning of needs for health care professionals**

*Measure 1.1. Adopt a Health Care Professionals Development Plan*

A Health Care Professionals Development Plan should be adopted; it would specify a professional development programme for health care professionals and associates, the number of specialisations and subspecialisations to be approved annually, criteria and detailed requirements for the approval of specialisations and subspecialisations and other matters relevant to professional development of health care professionals and associates. The needs for specialised health care professionals, planning models and deadlines for the achievement of the set objectives would thus be defined in more detail.

*Measure 1.2. Train managers of health care institutions and employees of public health institutes in staff planning*

Training in planning competencies should be delivered to managers of health care institutions and employees in public health institutes. In addition, national-level mechanisms should be provided to ensure that plans are followed and implemented and that the detected gaps in the number and type of staff are filled on the basis of periodic assessments.

*Measure 1.3. Train managers in health care institutions in human resources management skills*

Health care institutions' personnel departments should gradually develop into human resources management departments, and health institutions' heads (managers) should have the basic human resources management knowledge and skills in order to improve institutions' performance, in particular the quality and efficiency of their work.

**Objective 2: Reduce the number of students enrolled in schools and faculties in the area of health/medicine in line with the country's needs**

*Measure 2.1. Introduce “numerus clausus” at the national level.*

A careful assessment of the needs for health care professionals should be carried out on the basis of natural outflow and migration and in line with the Serbian population's health care needs and society's financial capacities; the annual number of students to be enrolled in schools and faculties in the area of health/medicine (numerus clausus) at the expense of the national budget should be set on the basis of the assessment. As before, this quota would be approved by the Government of the Republic of Serbia on the basis of a proposal of the Ministry of Education, Science and Technological Development and consent of the Ministry of Health.

*Measure 2.2. Change the modality of funding faculties – on the basis of the quality of knowledge and skills gained by students, rather than the number of students enrolled*

The modality of funding faculties should be changed – on the basis of the quality of knowledge and skills gained during studies, rather than the number of students enrolled. The introduction of teaching quality assurance measures and the accreditation process would decrease the incentive to enrol more students and would result in enhanced knowledge and skills of graduates from schools and faculties in the area of health/medicine.

**Objective 3: Optimise the number of administrative and technical staff in the health care system**

*Measure 3.1. Outsource ancillary services in health care institutions (food preparation, hygiene, laundry)*

Administrative and technical staff in the health care system should gradually be replaced by engaging agencies that provide the relevant services (outsourcing), which would decrease the burden on the health care system, reduce costs and increase efficiency.

## 4. ADMINISTRATION AND FINANCING

### 4.1. Capacity building, administrative and institutional reforms

This section introduces measures to enhance the state's institutional capacities required for implementing the envisaged reforms.

Capacity building and institutional reforms for the purposes of implementing the Employment and Social Reform Programme (ESRP) will be undertaken in accordance with a more comprehensive reform of administration, as envisaged in the Action Plan for Implementation of the Republic of Serbia Public Administration Reform Strategy 2015–2017. To that end, by 2017, the Government will conduct organisational and functional restructuring of the public administration by implementing evidence-based measures for streamlining the public administration in terms of the number and meaningfulness of institutions, the number of their employees, operational processes and organisational structures, in addition to developing a solid analytical basis for these processes.

Moreover, as an integral part of this process, the system of public policy management (planning, analysis, design, adoption, monitoring, evaluation and coordination) will be improved by the end of 2017 through the establishment of a legal and institutional framework for integrated strategic management and adoption of medium-term work programmes of public administration bodies, aligned with the Government's strategic priorities and the programme budget. This includes the consolidation of the existing budget funds for the implementation of social inclusion measures. One of the priority measures, which will contribute to raising the quality of services and improved coordination, will entail further development of e-government, as well as the completion of the legal framework and procedures for e-government development.

In order to ensure qualitative improvement of public services, the public procurement system will be enhanced, inspection will be reformed and better protection of public interest will be ensured with reduced administrative costs of inspection and increased legal certainty for entities subject to inspection. According to the Action Plan for Implementation of the Republic of Serbia Public Administration Reform Strategy 2015–2017, these measures are planned to be undertaken by the end of 2017. Moreover, institutional capacity strengthening also requires cooperation with the EU (Instrument for Pre-Accession Assistance, TAIEX, specific Community programmes), as well as with other international organisations and bilateral donors. Institutional capacity strengthening will also be effected through cooperation with civil society organisations and other social partners active in the areas covered by the ESRP.

Successful implementation of measures envisaged under the ESRP also largely depends on institutions' capacities to more efficiently and successfully use the currently available, as well as the future EU funds. The ESRP implementation process will also serve as the framework for enhancement of administrative capacities for better absorption of pre-accession funds, as well as for strengthening of administrative capacities as part of the preparation for the European Social Fund. With regard to administrative capacity strengthening, the EU accession states are obliged to ensure a sufficient number of staff assigned to programming and implementation of the EU pre-accession funds, who are trained in programme and project management in accordance with appropriate rules and procedures. This will pose a specific challenge for the implementation of IPA projects in the social development sector, whose strategic umbrella document

will be the ESRP – as projects in this sector are typically numerous, with elaborate and itemised budgets, predominantly financed through grant schemes, which hinders the monitoring of their implementation by competent authorities. Considering all of the above, within the institutions responsible for the implementation of the ESRP (which will be supported by IPA funds to a great extent) it is particularly important to preserve and gradually increase the administrative capacities assigned to programming and implementation of the EU pre-accession funds.

#### *4.1.1. Labour market and employment*

Pursuant to the Law on Ministries, the competent authority for active employment policy-making, development and implementation in Serbia is the Ministry of Labour, Employment, Veteran and Social Affairs (MoLEVSA). Active employment policy implementation is the responsibility of the National Employment Service (NES).

Pursuant to the Law on Employment and Unemployment Insurance, employment services are also provided by private employment agencies. The Law also provides for the establishment of local employment councils and the possibility of co-financing programmes and measures envisaged by local employment action plans with funds from the national budget. In 2014, there were 103 active local employment councils in total.

Affairs related to employment, unemployment insurance, exercise of unemployment insurance rights and other rights pursuant to the Law, as well as record keeping in the field of employment, are performed by the NES. The organisation of the NES follows an integrated functional and territorial principle, matching the Republic of Serbia's territorial and administrative organisation, and it allows the decentralisation of functions, as well as decision-making at the local level, in accordance with the interests of social partners and labour market needs. It has 34 branch offices across the Republic of Serbia, established according to the territorial principle. The NES job classification foresees 1,804 jobs in the NES Head Office, provincial and branch offices as the basic organisational units. Oversight of the implementation of this Law and its implementing regulations, as well as of the NES operation, is performed by the Ministry of Labour, Employment, Veteran and Social Affairs.

Pursuant to the Law, the minister responsible for employment affairs and the director of the National Employment Service conclude the NES Performance Agreement. The Agreement is concluded on an annual basis and it prescribes the NES performance targets and the monitoring of active labour market policies' implementation efficiency. The Agreement specifies in more detail the measures and activities from the National Employment Action Plan to be undertaken by the NES, the timeframe for implementation of the measures and activities, expected outcomes, responsibilities within the NES and the financial framework. The Ministry of Labour, Employment, Veteran and Social Affairs monitors the degree of performance on the basis of NES reports.

The main institutional reforms in the field of labour market and employment, which have the potential to contribute to a more effective and efficient implementation of the ESRP, refer to the National Employment Service and include the following activities:

- Strengthening of the National Employment Service capacities, which has received substantial funding from the European Union through the Instrument for Pre-Accession Assistance. A part of this assistance will be implemented with the funds provided under IPA 2012. In ad-

dition to a significant amount of funds received for the implementation of active labour market policies directly benefiting the unemployed, technical assistance has also been awarded, which will be channelled towards training the NES staff to maximise the benefits of the EU funds received for active labour market policies, considering the intention to increase the practice of channelling the IPA funds into the beneficiary countries under the so-called sector budget support, while on the other hand, the NES needs to become independent and optimise its absorption capacities for the role it will have to play when Serbia becomes a member of the EU and gains access to the European Social Fund.

- IPA 2013 again awarded both a direct grant for the implementation of active labour market policies and a technical assistance project, aimed at providing support to the National Employment Service to improve its system for organising training for unemployed persons with a view to enhancing the impact of the training on their employment. In addition, the project will also seek to promote vocational rehabilitation services and active labour market policies for persons with disabilities (PWD), on the one hand by improving the services and measures provided by the National Employment Service and, on the other hand, by strengthening the capacities of enterprises for vocational rehabilitation and employment of PWD.
- The employment policy decentralisation process and decision-making about local labour markets also entails **strengthening local government capacities**, i.e. the activation of local employment councils to design and implement employment policy based on local labour market needs and data. In view of this, a range of activities, training events and meetings on employment policy decentralisation have been held in the recent period. Considerable assistance in enhancing the capacities for the development and implementation of local employment plans in line with the local labour market situation was provided to local employment councils and National Employment Service branch office staff by the Twinning Project “*Preparation of Serbian Labour Market Institutions for European Employment Strategy*”, whose implementation was concluded in mid-2014. Project activities covered 65 local governments, and the Manual for the Development of Local Employment Action Plans was prepared to support local employment councils in local employment action plan development.
- Support activities will continue in the coming period, with the aim of ensuring that local employment councils and local governments recognise local labour market needs, evaluate the effects and impacts of their own work and independently build their capacities in order for local employment councils to develop into community-based partnerships.
- Efforts to strengthen local employment policy continue through the IPA 2012 project of technical assistance to the National Employment Service, including a dedicated component on work with local employment policy stakeholders to design measures and programmes adapted to local labour market conditions.

**The focus in the forthcoming period will be on strengthening the capacities of labour market institutions with the support from various international donors.**

Significant comprehensive initiatives include that launched by the Government of the Republic of Serbia in cooperation with the World Bank, under the project titled “Support to the Promotion of Competitiveness and Employment Growth”. This project is a form of budget support and it will address several policy areas. One of its components deals with labour market and social protection issues. In the context of labour market reform activities, two principal lines of action

include the reorganisation of the National Employment Service, aimed at raising the quality of services to unemployed persons and employers, as well as the redesign of active labour market policies with a view to enhancing their impact on employment.

The above projects are planned to launch in the course of this and the next year, while the plan for the medium term period is to prepare the National Employment Service for joining the network of EU Member States' public employment services (EURES).

#### *4.1.2. Human capital and skills*

The Ministry of Education, Science and Technological Development (MoESTD) is in charge of the organisation and implementation of the goals and development policies of the Republic of Serbia's education system. The Ministry conducts oversight of the overall organisation and the system of education and conducts public administration affairs pertaining to: planning and development of pre-school, primary, secondary and tertiary education, as well as of pupil and student living standards; participation in constructing and equipping facilities for pre-school, primary, secondary and tertiary education with a view to improving pupil and student living standards in line with the interests of the Republic of Serbia, subject-related and pedagogical supervision of pre-school, primary and secondary education and pupil/student living standards; organisation, performance evaluation and supervision of professional development of the education staff.

The Ministry strives to improve social care provided to gifted pupils and students, as well as to upgrade social care to pupils and students with special needs and allow for supplemental education of children of our nationals residing abroad; it recognises and assesses the equivalency of public documents obtained abroad, and sets the national qualifications framework; it provides the conditions for acceding to and realising projects which are financed from the EU pre-accession funds, grants and other forms of development aid; it also performs other tasks determined by the law.

Besides the Ministry of Education, Science and Technological Development, a number of independent bodies play an important role in the policy creation and implementation of development goals of the education system – the National Education Council (NEC), the National Higher Education Council (NHEC) and the Council for Vocational and Adult Education (CVAE), as well as independent institutions – the Institute for Education Quality Evaluation (IEQE) and the Institute for the Improvement of Education (IIE).

Regarding the field of education, distribution of responsibilities among central, provincial and local authorities varies depending on the level of education: at the level of pre-school education, local authorities have considerably more responsibilities, while the central level is not sufficiently involved; at the level of primary and secondary education, central authorities enjoy a much wider scope of responsibilities, while the participation of local authorities is insufficient, with schools having only token autonomy; at the level of tertiary education, universities enjoy a high degree of autonomy, which is, however, inadequately regulated. Neither national nor local authorities are sufficiently involved in the promotion of adult education, i.e. life-long learning. A number of adult education institutions (workers' and people's universities) no longer exist, and the newly established ones have yet to be accredited under the Law on Adult Education.

Public institutions are predominant at the pre-tertiary levels of education, while tertiary education has seen the establishment of a wide network of private service providers.

Education system management is mostly administrative, while the quality assurance system is incomplete and not fully functional.

Major institutional reforms in the field of education, which may contribute to a more effective and efficient implementation of the ESRP, refer to the following activities:

- Set up an effective and unified information system for improving management and efficiency of the education system and its processes;
- Set up a new system of quality assurance and build capacities of all institutions and bodies involved in education management, and improve inter-sectoral cooperation (e.g. improve the capacities of the analytical unit within the MoESTD in order to enable evidence-based decision-making; build capacities for accreditation and certification in the process of attaining qualifications in formal and non-formal education, as well as in the process of recognition of prior learning, etc.);
- Optimise the network of primary and secondary schools, and pupil and student halls of residence;
- Establish a functional national agency for the implementation of projects under the Erasmus+ programme with a view to promoting participation of institutions, students and teachers in this programme.

#### *4.1.3. Social inclusion and social protection*

The responsible institution for the development of policies and institutional frameworks in the field of social inclusion and social protection, including health care, is the ministry in charge of social affairs, as well as the Ministry of Health (MoH). The scope of work of the ministry in charge of social affairs includes public administration affairs related to: anti-discrimination policy; social protection system; system of protection under the family law; marriage; gender equality; population policy; family planning, family and children; exercise of rights and integration of refugees and displaced persons, returnees under the Readmission Agreement, Roma and other socially disadvantaged groups; pension and disability insurance system. The ministry in charge of health care system development is responsible for: the development of the mandatory health insurance system and other forms of health insurance and health insurance contributions, more detailed regulation of health insurance rights, the content of health care, preservation and promotion of population's health and the monitoring of population's health status and needs; organisation of health care, as well as professional advancement and specialisation of health professionals, health inspection development and strengthening.

In addition to the Ministry, the National and Provincial Institutes for Social Protection have an important role in improving social protection. The institutes are responsible for providing support in policy-making through research, taking care of social protection service quality, strengthening the capacities of social protection staff, disseminating information to and organising promotional activities for professionals, stakeholders, professional circles and the general public.

Additionally, under the Office of the Deputy Prime Minister and in collaboration with the Republic Secretariat for Public Policies, the Social Inclusion and Poverty Reduction Unit is investing efforts towards the improvement of coordination, oversight and reporting in the field of social inclusion.

The main institutional reforms in the field of social inclusion and social protection, which have the potential to contribute to a more effective and efficient implementation of the ESRP, refer to the following activities:

- Establishing regular information sharing and the interconnection of information systems of different sectors, government tiers and various stakeholders within individual sectors, and defining a protocol for action in cases of cross-cutting risks at both national and local levels, as well as promoting record keeping in the Central Registry;
- Simplifying the administrative procedures, procuring documents of behalf of the clients, providing better information about entitlements and services with the aim of introducing assistance to particularly vulnerable groups in applying for certain entitlements;
- Setting up mobile teams and outreach work that will enable the detection of vulnerable individuals at the local level, with a view to establishing an early warning system for potential clients at risk;
- Coordinating the work and redefining the role of certain stakeholders at the local level who emerged during the implementation of various projects and sector schemes targeting specific vulnerable groups, and reviewing their cross-sectoral potentials (Roma coordinators, health mediators, teaching assistants, youth offices, intersectoral committees on children, municipal/city housing agencies, the Red Cross, CSOs);
- Strengthening inspection services at the national level, as well as in entities that conduct inspections as affairs delegated to them, improving service quality, strengthening oversight and regulatory mechanisms, monitoring and evaluation;
- Capacity strengthening of professionals from various sectors at the national and local levels in the field of anti-discrimination and professional work with vulnerable groups;
- Expansion of regional foster care and adoption centres (establishment of two more centres) and defining and improving their oversight function;
- Introducing monitoring and evaluation of social protection service quality, including client satisfaction assessment;
- Formation of mobile teams in the primary health care centres of dispersed municipalities and introduction of telephone health advice services, with a view to upgrading health care support for the population at risk;
- Expansion and strengthening of the Roma health mediator network;
- Defining a network of social and health care institutions and introducing a protocol on improving the care for clients who need both social and health care services;
- Development and strengthening of palliative care services in the primary health care centres and establishment of geriatric wards in general hospitals with a stock of beds in line with the needs imposed by the health status of the elderly in the considered municipality;
- Training of managers and employees in public health institutes in staff planning;
- Strengthening the capacities of institutions within the social protection system to draft innovative projects using EU funds, building the capacities of social protection system staff to draw funds from the European Social Fund after Serbia' accession to the European Union.

#### *4.1.4. Social Dialogue*

Yet another challenge faced by the Republic of Serbia is the insufficiently developed social dialogue, collective bargaining, the area of resolution of industrial conflicts and peaceful resolution of labour-related conflicts. Social dialogue in Serbia represents a tripartite process between trade union representatives, employers and the Government, and its most important content is collective bargaining and socio-economic councils. The Law on the Socio-Economic Council (Official Gazette of RS No 125/04) provided for the establishment of the Socio-Economic Council of the Republic of Serbia, creating important preconditions for a more successful social dialogue at the national level. The Socio-Economic Council is to take standpoints and guide the Government policy related to certain issues relevant to the employed persons (employment, privatisation, wage and prices policy, protection of work environment and environmental protection, education and professional training, health care and social protection, etc.). However, the results of the Socio-Economic Council of the Republic of Serbia vary. One of the challenges lies in the fact that the legal obligation of timely submission of draft legislation and other documents relevant to material and social status of employees and employers is not fully implemented. The responsibility lies with all social dialogue participants and all the three parties constituting this body – the Government, the trade unions and the employers must see to it that the Council contributes to the implementation of a responsible social policy in Serbia.

In addition to the national Socio-Economic Council, there are socio-economic councils at the autonomous province and local government levels (local socio-economic councils). The establishment of these councils is voluntary and based on the agreement of the stakeholders. Nevertheless, social dialogue at the local level is underdeveloped. There is a number of practical problems slowing down the establishment of socio-economic councils at the local level, often because employer associations and trade unions lack adequate local organisational structure, technical and staff capacities required for the establishment and functioning of social dialogue at the local level, as witnessed by the fact that only 17 local socio-economic councils have been established since 2005.

The next instrument of social dialogue is collective agreements and collective bargaining. Social dialogue cannot develop in the absence of collective bargaining. The Labour Law gives particular significance to collective agreements, and the social partners must work together to advance collective bargaining, not only at enterprise level but at the higher level as well, with a view to concluding industry-wide and other special collective agreements (at the level of local government and territorial autonomy), as well as a general collective agreement. The prerequisite for this is the existence of representative trade unions and representative employers' associations with the authority to conclude these collective agreements.

The role of the Ministry of Labour, Employment, Veteran and Social Affairs in collective bargaining is, first and foremost, legislative. The Labour Law (Official Gazette of RS, Nos 24/05, 61/05, 54/09 and 32/13) provides a regulatory framework for the conclusion of collective agreements, their contents and implementation. The other role of the Ministry in the domain of collective agreements is registration of special collective agreements, extending their effect and exclusion from their application.

Pursuant to Article 117 of the Law Amending the Labour Law (Official Gazette of RS No 75/14), all collective agreements effective as at the date of the entry of this law into force ceased to be in force on 29 January 2015. By 23 February 2015, collective agreements were concluded in public services (health, culture, education, social protection), in public enterprises and for-profit corporations founded by the Republic of Serbia, and the collective agreements for police officers.

The conclusion of collective agreements is evidently difficult in the industries in which the parties thereto are the representative trade unions and the representative employers' association. The problems that hinder collective bargaining vary across industries, but the most frequently cited one is that the employers suffered financial problems due to the economic crisis and are not prepared to commit by concluding collective agreements. A major problem with respect to industry-wide collective agreements is the "tariff part", which would establish the price of labour for standard positions in certain industries. Also, the capacities of the employers' party in certain industries are lower; thus, in situations where there is no adequate party to a collective agreement on the part of employers' associations, the trade unions conclude collective agreements by invoking their extended application.

The role of the methods of peaceful resolution of labour-related disputes is important in development of social dialogue. Labour-related disputes happen very often in our environment and practice. These are both collective labour-related disputes, which may arise due to exercise of rights to trade union formation and strike or due to conclusion and implementation of collective agreements, and individual – most often because of termination of employment contracts and failure to pay minimum wages. The Republic Agency for Peaceful Resolution of Labour-Related Disputes was established pursuant to the Law on Peaceful Resolution of Labour-Related Disputes in November 2004. It became operational in June 2005, when the call for selection of mediators and arbitrators was closed. In its work to date, the Agency resolved more than 4,000 individual and more than 70 collective labour-related disputes. The work of the Agency should be improved and promoted in the future.

In addition, the representatives of representative trade unions and employers' associations sit in other bodies at various levels (employment councils, Committee for the Establishment of Representativeness of Trade Unions and Employers' Associations), as well as in governing bodies of certain organisations and funds (Pension and Disability Insurance Fund, National Employment Service, Solidarity Fund, etc.). Also, employee representatives are members of certain bodies at the level of individual employers, for instance in management and supervisory boards of public enterprises, occupational safety and health board, etc.

It is necessary to improve the system for informing trade unions' and employers' representatives about the need for collective bargaining, as well as to promote peaceful settlement of individual and collective labour disputes. At the system-wide level, it is necessary to develop databases, to be maintained by the competent ministry, and improve the legislative framework.

## 4.2. National Budget and European Union Funds

### 4.2.1. Costs of implementing the Employment and Social Reform Programme (ESRP)

The main medium-term objectives of the economic policy include reaching macroeconomic stability through the implementation of fiscal consolidation measures, strengthening the financial sector stability and removing obstacles that hinder the growth of economic activity and competitiveness by performing comprehensive structural reforms<sup>181</sup>.

A new national growth model requires reduction of unrestrained spending, bureaucracy and unnecessary public sector expenditures accompanied by increased investment spending with the aim of stimulating economic growth and employment, while safeguarding social security of the most vulnerable population. In the field of social security, the availability of larger amounts for certain social security schemes is expected, due to strict fiscal consolidation measures planned in the upcoming period. This implies more funds for specific programmes aimed at supporting the most vulnerable population, as well as citizens who lost their jobs in the course of restructuring and transition. A certain amount of funds should become available owing to completion of the restructuring of socially-owned enterprises, resolution of the issue of inefficient public enterprises and financial sector stabilisation<sup>182</sup>. On the other hand, in other parts of the public sector, such as education and health care, based on a comprehensive needs analysis, rationalisation will be performed with the aim of raising the quality of services provided by the state<sup>183</sup>. Within the cooperation with international financial institutions, especially in the Agreement concluded with the International Monetary Fund, the Republic of Serbia confirmed its commitment to providing adequate protection to vulnerable population groups and maintaining the existing expenditures for these purposes<sup>184</sup>.

In the national and international documents, Serbia committed itself to assuming obligations and fulfilling the objectives defined in the Employment and Social Reform Programme. This is corroborated in the Fiscal Strategy for 2015 with Projections for 2016 and 2017, National Economic Reform Programme for 2015-2017, Agreement concluded with the IMF and a number of adopted national development strategies.

From 2008 to 2013, Serbia utilised EUR 1,907.45 million of international development funds for the human resources and social development sectors, including social policy, labour and employment, education and health<sup>185</sup>. Planning and programming of this assistance was based on sector strategies and strategic documents of donors (European Union, bilateral and multilateral donors).

**The Needs Assessment Document for 2014-2017 (with projections until 2020)**<sup>186</sup> has been adopted to serve as a basis for the future planning of international development funds. Striving to narrow down a wide spectrum of national strategic objectives and focus the international

181 Fiscal Strategy for 2015, with Projections for 2016 and 2017, Ministry of Finance.

182 National Economic Reform Programme for 2015-2017, Government of the Republic of Serbia, 2015.

183 Fiscal Strategy for 2015, with Projections for 2016 and 2017, Ministry of Finance.

184 <http://www.imf.org/external/pubs/ft/scr/2015/cr1550.pdf> „To ensure proper protection of the vulnerable segments of the population, the existing social safety net will be maintained“.

185 [http://www.evropa.gov.rs/Documents/Home/DACU/5/15/236/\\_R\\_OverviewOfInternationalAssistanceBySectors\\_total.pdf](http://www.evropa.gov.rs/Documents/Home/DACU/5/15/236/_R_OverviewOfInternationalAssistanceBySectors_total.pdf)

186 [http://www.evropa.gov.rs/Documents/Home/DACU/5/21/NAD%202014-2017%20sa%20projekcijama%20do%202020%20\(srpski\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/5/21/NAD%202014-2017%20sa%20projekcijama%20do%202020%20(srpski).pdf)

assistance to the most important issues, the NAD defines several priorities<sup>187</sup> which, to a certain extent, correspond with the priorities identified in the Employment and Social Reform Programme.

One of the arguments in support of this solution is the position of the European Union stated in the **European Commission Indicative Strategy Paper for Serbia– IPA II (2014-2020)**<sup>188</sup>, which states that two main expected results of the EU support to the education, employment and social policies sector are harmonisation of legislation with the *acquis* and enhanced inclusive growth achieved through implementation of the ESRP. As specified in this document, for education, employment and social policies sector the anticipated amount of EU assistance to be disbursed over 2014-2020 equals EUR 190 million, of which 15 million is planned for 2014, 40 million for 2015, 20 million for 2016, 27 million for 2017 and 88 million is planned for 2018-2020.

In addition, IPA Social Development Sector Fiche for 2015-2017 will envisage significant support to the implementation of ESRP from IPA funds, starting from 2015. Finally, bilateral donors are also expected to provide considerable support for the implementation of certain measures, particularly the donors that are traditionally active in this sector, such as Federal Republic of Germany, Kingdom of Sweden, Kingdom of Norway, Swiss Confederation, etc.

The total indicative funds required for Programme implementation in the period 2015-2020 amount to approximately EUR 700 million. The estimated funds necessary for the implementation of individual measures are in accordance with the RS Budget Law for 2015, priority funding areas identified by line ministries for the period 2015-2017, as well as the Fiscal Strategy for 2015 with Projections for 2016 and 2017. This means that the funds needed for the execution of a number of measures envisaged in the ESRP have already been allocated in the RS budget for 2015 and amount to EUR 197 million. The total estimated budget funds required for the first three years of Programme implementation amount to approximately EUR 500 million. For another group of measures, the funds will be provided by the European Union through the Instrument for Pre-Accession Assistance, for 2012-2013 programmes, and from IPA II, for 2014 programmes. Programming of the IPA 2015-2017 programmes is under way. The third source of funding comes from other international donors and IFIs, such as the World Bank, Government of Germany, Government of Switzerland, etc. In addition, there is a group of activities whose funding will be defined in the course of ESRP implementation. The identified contracted donor funds that will contribute to Programme implementation in the period 2015-2020 total almost EUR 80 million, while the additional funds required are estimated at EUR 120 million.

In preparing cost estimates for the implementation of individual measures, the activities foreseen by Serbia's institutions within their budgets and programme activities have been taken into account. It was possible to budget these activities. The activities that are part of responsible

<sup>187</sup> Priority 1. Improved trend of efficient, stable and sustainable growth in the employment area will improve effectiveness, focus and scope of active labour market policies, further develop the local mechanisms for stimulating activation and employment in underdeveloped areas, promote youth employment and entrepreneurship (particularly with young people who are not employed and do not attend any form of education or training) and improve the situation with respect to the occupational safety and health. Priority 2. Development of the knowledge-based society, which will upgrade formal and non-formal education, with the aim of improving efficiency and relevance of the pre-university education, enhancing inclusion in schools, continued development of NQF for life-long learning, as well as raising of high education quality. Priority 3. Enhanced effectiveness and equity of social security, which will lead to the introduction of a more effective targeting of social security beneficiaries, improved implementation of community social inclusion measures, promotion of activation measure and development of social economy. Priority 4. Improved health status of the population through better accessibility, availability, cost-effectiveness and efficiency of health care services, establishment of cross-sector relations (with social policies, labour and employment sector and education sector), reduced incidence of non-communicable diseases and enhanced capacities for health care management.

<sup>188</sup> <http://www.evropa.gov.rs/Documents/Home/DACU/5/21/234/ISP%20Serbia.pdf>

institutions' ongoing activities, whose costs could not be estimated, are designated "OA" (ongoing activity). These activities will be implemented through better and more efficient use of funds within the responsible institutions' budgets. With a view to raising efficiency, both in the use of funds and in the implementation of measures foreseen by the Programme, it is essential to conduct a comprehensive analysis of the public procurement process.

#### 4.3. Monitoring the implementation and the achieved progress of the Employment and Social Reform Programme (ESRP)

For the successful implementation of the Employment and Social Reform Programme, it is important to have a well-designed and operational monitoring and evaluation system of its implementation process. The basis for the establishment of the monitoring and evaluation system of ESRP implementation consists of the following:

- **The existing monitoring, reporting and evaluation mechanisms functioning within the Government of the Republic of Serbia will be largely employed in the monitoring and reporting process of the Employment and Social Reform Programme implementation.** In the first place, this refers to the regular annual and multiannual monitoring and reporting processes conducted by the Government of the Republic of Serbia, including reporting related to the European integration processes (such as: the preparation of the annual Government Work Report, the Action Plan for the implementation of the Government Work Plan, the briefs of the Government of the Republic of Serbia for the Progress Report, the preparation of the national report on social inclusion and poverty reduction, impact analyses of the policies implemented by institutions). It is therefore necessary to adapt the timeframe for ESRP monitoring, reporting and evaluation to the existing system.
- The implementation and effects of the ESRP measures funded under the Instrument for Pre-accession Assistance (IPA II) will be monitored and reported on through the national monitoring system established in the form of joint monitoring committees of the European Commission and the Republic of Serbia. The key elements of the monitoring system under indirect management of the Instrument for Pre-accession Assistance are monitoring committees (MC). Monitoring committees represent a forum for discussion about the implementation of pre-accession assistance, from the sector level to the overall IPA level. The implementation of IPA interventions programmed on the basis of ESRP objectives and measures will be monitored and discussed within the Human Resource and Social Development Sector Monitoring Committee.
- **The monitoring process should ensure a complete insight into different aspects of the ESRP implementation and all relevant social actors should be engaged in the monitoring process.** This entails the commitment of the competent institutions at the national, provincial and local levels, as well as the engagement of social partners. In this manner, a comprehensive monitoring process will ensure successful ESRP implementation. The success of the ESRP largely depends on the efficient and active participation of civil society, local communities and vulnerable groups in the ESRP implementation and monitoring process.

#### *4.3.1. The system of ESRP implementation monitoring, reporting and evaluation*

The European Commission will monitor ESRP implementation annually through the Progress Report on the European integration process of Serbia published in October every year.

The Government of the Republic of Serbia prepares the Government Annual Work Plan, which is adopted by the end of the year, as well as the Government Work Report which is adopted in the second quarter of the year. The General Secretariat of the Government is in charge of coordinating the ministries and other Government bodies responsible for the implementation of the Government Annual Work Plan and Work Report, while the Republic Secretariat for Public Policies coordinates public policies.

The European Integration Office prepares biannual (April and August) briefs for the Progress Report, containing the information about the implementation of the key reforms in the previous period.

The Statistical Office of the Republic of Serbia publishes Survey on Income and Living Conditions data.

Every two to three years, the Government prepares and adopts National Reports on Social Inclusion and Poverty Reduction, covering: an overview of the legal, strategic and institutional frameworks relevant for social inclusion and poverty reduction processes, an analysis of the state of affairs in relevant areas, an overview of implemented measures and programmes, conclusions and the main lines of action for the forthcoming period. The preparation of the Reports is a joint activity of line ministries and other executive authorities, the National Assembly, local governments, civil society organizations, international partners, scientific and research institutions, social partners and the expert community.

For successful ESRP implementation, it is important to perform regular evaluations of the different measures and programmes defined by the ESRP. It is also necessary to make a selection of the areas and activities of particular interest, to be subjected to targeted, in-depth evaluation during or at the end of the ESRP implementation cycle, which will be done through the mechanisms of the Republic Secretariat for Public Policies. In view of the fact that significant resources will be employed for each individual evaluation, priorities in the evaluation schedules of individual areas should be selected on the basis of specific criteria. These activities require support from the EU and international development partners, as well as the involvement of local experts in the evaluation process.

The basis for the Programme monitoring and assessment is the table (below, in this chapter) containing objectives, measures, monitoring indicators, data/verification sources, deadlines, responsible institutions, as well as the estimated funds necessary for implementation.

The Programme implementation will be monitored based on the indicators defined for each measure (where possible) and will be the responsibility of the institution in charge of implementing a given measure. The implementation reports will be prepared on an annual basis and will contain the updated values of the indicators, as well as a narrative report on the achieved progress.

An inter-sectoral working group<sup>189</sup>, established by the Government to formulate the ESRP will

<sup>189</sup> The working group consists of the representatives of the Ministry of Labour, Employment, Veteran and Social Affairs, the Ministry of Education, Science and Technological Development, the Ministry of Health, the Ministry of Finance, the Ministry of Economy, the Ministry of Public Administration and Local Government, the Ministry of Youth and Sports, the Social Inclusion and Poverty Reduction Unit, the Institute for Social Protection, the European Integration Office, the Office for the Cooperation with Civil Society, the Standing Conference of Towns and Municipalities and the Republic Secretariat for Public Policies.

be responsible for monitoring its implementation as well. The Ministry of Labour, Employment, Veteran and Social Affairs coordinated the entire process of Programme development, with technical support from the Social Inclusion and Poverty Reduction Unit.

To ensure active involvement of other relevant stakeholders, at national and local level, such as Standing Conference of Towns and Municipalities (SCTM), Sectorial working group for human resources and social development (SECO), National Convent on the European Union, as well as other civil society organisations the Government of the Republic of Serbia will launch Platform for monitoring process of implementation of ESRP. The Platform should enhance dialogue and partner relations between the governmental and non-governmental sectors as part of a wider reform process. The overall goal of the initiative is to establish effective dialogue between governmental institutions, at the national and local levels, and civil society organisations in connection with ESRP implementation.

Using publicly available data and local governments' contributions and information, the Standing Conference of Towns and Municipalities (SCTM) will follow the implementation of measures that are the responsibility of local self-governments and report on progress to the institution responsible for reporting on activities and changes in the implementation of ESRP at the local level.

All abovementioned mechanisms constitute a framework for defining the monitoring, reporting and evaluation process of the Employment and Social Reform Programme implementation.

#### *4.3.2. Monitoring indicators for the implementation of the ESRP*

The main set of *outcome indicators* should provide an insight into the effects of the ESRP implementation, the level and trends of key indicators for employment, education, social protection, pension system, health care, as well as social inclusion and poverty. The Common Framework for Evaluating the Implementation of Europe 2020 was taken into account in defining the main set of indicators, as well as the *Laeken indicators*, which are embraced by EU member states in their reports to the European Commission; in the recent past, Serbia has developed a monitoring system based on these indicators. The relevant indicators of the *South East Europe 2020* strategy are also part of the monitoring framework. In addition, certain *country-specific indicators* defined in the relevant strategic documents will be used in monitoring ESRP implementation, as well as *process indicators* listed under individual measures and programmes.

Outcome indicators refer to the attainment of defined objectives under the Employment and Social Reform Programme. Process indicators imply monitoring the implementation of the ESRP from the start of an activity, through monitoring concrete courses of reform (e.g. reform in legislation etc.) and specific projects and activities under the ESRP, to the achievement of immediate results of activities.

The system for monitoring and evaluation of the ESRP implementation results should cover all the stages and results in the course of implementation:

- Monitor the efficiency of the activities defined under the ESRP;
- Assess the performance against the main and sector-specific objectives set under the ESRP;
- Monitor the level, trends and profiles of the main employment and social policy indicators with a view to the timely revision of individual ESRP segments (if necessary);

- Ensure participation of all stakeholders in society in the ESRP implementation;
- Promote institutional responsibility for the results in the course of ESRP implementation.

Based on the numerous requirements that the system of indicators has to meet, as well as copious suggestions from relevant state institutions, civil society, international development partners, and other stakeholders, a preliminary set of indicators has been composed and attached in the Annex.

#### *4.3.3. Data sources*

Relevant administrative data and regular statistical surveys will be used as the main sources of data for the ESRP monitoring purpose.

The Survey on Income and Living Conditions (SILC) has brought about a remarkable improvement of statistics in the sphere of living conditions and enabled comparability of the data obtained in the Republic of Serbia with those of EU member states. The Household Budget Survey (hereinafter: HBS) is used for a comprehensive understanding of the status of the most disadvantaged section of the population. The Labour Force Survey (hereinafter: LFS) lends an insight into the main labour market trends according to the International Labour Organisation's methodology, while administrative data on unemployment are recorded by the National Employment Service, which also stores the data on the inclusion of individuals in the active labour market policies and programmes and the impacts of these measures on people's employment. Moreover, once a year the National Employment Service produces reports on employers' needs for particular occupations and specific sets of knowledge and skills. Finally, the Government of the Republic of Serbia adopts annual reports on the realisation of national employment action plans which round up the yearly cycle of planning and implementing the national employment policy. Besides these, there are data available from the vital statistics and education statistics collected by the Statistical Office of the Republic of Serbia (SORS) and the Ministry of Education, Science and Technological Development, as well as health statistics collected by the "Dr Milan Jovanovic Batut" Institute of Public Health of Serbia, administrative data of the Ministry of Labour, Employment, Veteran and Social Affairs, etc.

The Statistical Office of the Republic of Serbia will continually report on the relative poverty indicators based on SILC data. It is important to mention that the SORS has not reported on the status of absolute poverty in the country since 2010. In order to monitor the profile of the most disadvantaged population in the country, and in response to absence of official data, the Social Inclusion and Poverty Reduction Unit has conducted an independent study into absolute poverty based on HBS data for the period 2011-2013. Apart from that, the World Bank has been providing extended support to the Government of Serbia in the further development of instruments for measuring poverty, which includes support to further upgrading the quality of the LFS, HBS and a poverty-mapping exercise at the local level using the Census data (2011).

The living conditions indicators for vulnerable groups (the Roma, persons with disabilities, refugees and internally displaced persons, etc.) are still missing, given that the aforementioned surveys do not lend themselves to drawing conclusions about these groups with a sufficient degree of reliability owing to their methodological limitations. It should be noted that European statistics also faces the same limitation and that surveys designed specifically for that purpose

are used instead.<sup>190</sup> What is more, there are independent studies conducted occasionally by civil society organisations, which significantly complement the employment and social reform implementation monitoring system.

Support will be provided in organising regular participatory studies which would enable collecting and systematising the views of the poor sections of society concerning the implementation and outcomes of the ESRP. These studies will indicate new directions of the ESRP development and implementation based on participation and views of the poor.

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<sup>190</sup> An example of such a study is the fifth national Multiple Indicator Cluster Survey in Serbia, conducted by the UNICEF and the Statistical Office of the Republic of Serbia.



## 5. ANNEX

### 5.1. Key strategic targets for the ESRP

Field	Indicator	2014 status	2020 target	Source
EMPLOYMENT	Employment rate increase (15-64)	49.6%	> 60%	LFS
	Unemployment rate reduction (15-64)	19.7%	< 15%	LFS
NEET	Youth aged 18-25 not in employment, education or training (NEET)	20%	15%	LFS
EDUCATION	Fewer early school leavers	15%	10%	Education Statistics/SORS
	Percentage of people aged 30-34 with tertiary education attainment	18%	38%	Education Statistics/SORS
	Percentage of adults aged 25-64 participating in a life-long learning programme	3.6%	7%	LFS
SOCIAL INCLUSION	Reduction of the number of people at risk of poverty	(1,829,570 people)	18% fewer people at risk of poverty (329.323 people)	SILC
	Social assistance adequacy			SILC
	Ratio of net income of FSA recipients to at-risk-of-poverty threshold for a single-person household	57%	80%	Official Gazette/Decision on Nominal Social Assistance Amounts
	Ratio of net income of FSA recipients to at-risk-of-poverty threshold for a household with two adults and two children	69%	80%	
HEALTH	Reduced number of people with self-reported poor and very poor health	22.9% (2013)	18%	SILC (EU-28 – 9.9%/2013)
	Access to health care – Percentage of people with unmet health care needs by reason of being too expensive or too far or waiting list <sup>191</sup>	8.7%	6%	SILC (EU-28 – 3.6%/2013)

### 5.2. Consolidated table overview of objectives, measures, necessary funds and indicators for ESRP monitoring (provided in the accompanying document)<sup>192</sup>

191 Self-reported unmet needs for medical examination for total population, all age groups, by reason: “Too expensive or too far to travel or waiting list”) - [hlth\_silc\_08] <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

192 The table has not been printed for the needs of this publication and is subject to annual revision

