

Employment and Social Affairs Platform 2

Performance of Western Balkan economies regarding the European Pillar of Social Rights

2022 REVIEW



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The report draws on individual economy-assessment reports, prepared by experts from the Western Balkan economies, guided and overseen by Dr Matthias Witt from the WINS Global Consult GmbH, Managing Director, and by Ratka Babic, ESAP 2 Acting Team Leader on behalf of RCC ESAP 2 project.

Abbreviations

AFD	French Development Agency
ALMP	Active Labour Market Policy
AROPE	At Risk of Poverty or Social Exclusion
BiH	Bosnia and Herzegovina
COVID-19	Coronavirus Disease of 2019
EC	European Commission
EIGE	European Institute for Gender Equality
EPSR	European Pillar of Social Rights
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GDPR	General Data Protection Regulations
IT	Information Technology
KII	Key Informant Interviews
LFS	Labour Force Survey
LGBT	Lesbian, Gay, Bisexual and Transgender
MDAs	Ministries, Departments and Agencies
NEET	Not in Education, Employment or Training
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
PWD	Persons with Disabilities
SME	Small and Medium Enterprises
UB	Unemployment Benefits
WB	Western Balkans
YG	Youth Guarantee

I. Executive summary



The ‘2022 review of the performance of Western Balkan (WB) economies regarding the European Pillar of Social Rights’ has been conducted by the Employment and Social Affairs Platform 2 (ESAP 2) programme implemented by the Regional Co-operation Council (RCC) and funded by the European Union. It was produced by WINS Global Consult (Germany), on behalf of the RCC.

This report analyses the progress of six Western Balkan economies (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, Serbia) regarding the 20 principles of the European Pillar of Social Rights (EPSR).

The summary is based on six individual reports. The 2022 review follows previously established processes in terms of structure and methodology. As overarching result, the 2022 review reveals that, although there is still some way to go before reaching headline indicators of the EU as standard, the WB economies have recorded moderate progress during 2021-2022.

Data availability and comparability remain a challenge in the region. While data is crucial for monitoring progress towards the EU accession, the region is only sparsely covered with adequate and up-to-date data. This has impacted the review: the absence of timely, reliable, and comparable data makes progress monitoring somewhat fragmented. The period under review has been characterised by opposing framework conditions. After a brief economic respite in the aftermath of the COVID-19 pandemic, the economic fallout of the war in Ukraine put an end to recovery, mainly due to soaring food and energy prices, as well as a general inflation. The abrupt halt might have contributed to persisting economic challenges, such as high unemployment rates. In addition, an earthquake in Albania and political instability in Montenegro contributed to headwinds on economic progress in 2022. Nevertheless, most of the economies show signs of economic recovery, and structural reforms are underway.

Progress is mainly observed in the development of legal frameworks. Despite the slowdown in social and economic life due to the COVID-19 pandemic, legislators across the Balkans have actively contributed to adopting favourable policies.

New laws were adopted during the period under review, such as those concerning the formalisation of informal employment in Kosovo* or the progress in the implementation of the EU Acquis in Serbia and Kosovo*. Although the legislative frameworks show positive developments, and despite favourable regulations in place and rights anchored in laws, their implementation (and use) is (still) rare – which is understandable, given the “normal” delay between the adoption of a new regulation and its impact on citizens’ behaviour. Thus, it is too early to assess the impact of recent developments on the legal frameworks of WB economies.

In the period under review, WB economies have aimed to complete their social safety nets. The level of social safety in the region is generally designed to provide minimum standards of living through social protection measures.

As one of the direct effects of the pandemic, labour markets have changed – in particular, remote work has become the norm in some working relations. This has posed a challenge to labour market regulations in the region, which have traditionally been based on the standard employment model (regulated working hours per day, attendance in the employer’s premises etc.). WB economies, as is also the case for policymakers outside the region, struggle to design an appropriate regulatory framework for atypical working relations, which leads to a new sector of insufficiently regulated work – an “informal sector 2.0”.

The WB economies show remarkable levels of legal frameworks protecting gender equality. Nevertheless, their implementation is still underway – with the exemption of Bosnia and Herzegovina, where the report states progress in further

* This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

strengthening of women's position in the labour market. In general, however, both the regulatory framework and, even more so, the practice of working relations, leave women with greater burdens, for example, when it comes to reconciling family and work obligations, particularly regarding childcare.

Despite the challenging environment, on some indicators, Western Balkan economies have outperformed even the European indicators. For example, the indicator of early leavers from education and training is lower in the Western Balkans than in the EU. Similarly, female political representation in Albania, North Macedonia and Serbia is higher than in the EU.

While the legislative landscape regarding data protection is sketchy, Albania has become the forerunner in the online provision of public services. Since 01 May 2022, 95% of government services can be carried out online through its portal e-Albania, accompanied by central management of all public databases.

However, this moderate progress is insufficient to lift WB economies to the EU level of Social Rights.

Considerable gaps continue to exist with regard to respect for minorities.

Proposals for regional priorities and actions in the short- to-medium term should focus on aligning adult education and life-long learning with labour market needs, in order to reduce the mismatch between labour demand and supply. This will contribute to reducing persistent unemployment and creating opportunities for employment and economic growth.

More attention and support should be provided to the integration of vulnerable groups. This is one of the cross-cutting findings: the inclusion of vulnerable groups is still far from achieved.

In the medium- to long-term, social safety nets in the region should be reviewed. In the meanwhile, the systems are currently narrow both in the scope of benefits as well as in volume. At the same time, there is room for improvement of the efficiency of existing social services. It is recommended to analyse the status of these services and to develop a strategy for reforming social safety nets of WB economies with a view on EU standards and practices.

II. Introduction



The '2022 review of the performance of Western Balkan economies regarding the European Pillar of Social Rights' has been conducted by the Employment and Social Affairs Platform 2 (ESAP 2) programme implemented by the Regional Cooperation Council (RCC) and funded by the European Union. It was produced by WINS Global Consult (Germany), on behalf of the RCC.

The report provides an overview of the performance of the six Western Balkan economies with respect to the indicators of the European Pillar of Social Rights. Referring to the year of 2022, this report is based on six individual reviews of the economies of Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia. The progress along the Pillar principles regarding legislation, reforms and measures was analysed across the region as well as in comparison to the EU27.

The European Pillar of Social Rights (EPSR), proclaimed in 2017 at the Gothenburg Summit, sets the priorities for economic and social security and inclusion in Europe (European Commission, n/d). The EPSR includes 20 principles clustered into three major areas of equal opportunities, fair working conditions and social protection and inclusion.

To observe the progress of achieving the Pillar principles, the Social Scoreboard was set up as a monitoring tool. In the case of the Western Balkan economies, it helps to trace the progress towards the EU accession by the EU candidate countries Albania, North Macedonia, Montenegro, Serbia and Bosnia and Herzegovina, as well as by Kosovo*, a potential candidate. The candidate status was granted to Bosnia and Herzegovina in December 2022 (European Commission, n/d).

The report is organised in line with three dimensions of the Pillar – equal opportunities, fair working conditions, and social protection and inclusion. The performance of the Pillar principles

is analysed from a regional comparative perspective. The conclusion assesses the main strengths and weaknesses of WB regional performance and trends in relation to their alignment with the EPSR principles and its Action Plan in addition to providing suggestions for priorities and actions in the short- to-medium term policies in the Western Balkan region.

While the immediate effects of COVID-19 on the Western Balkan economies have subsided in 2022 and economic recovery had gained pace, the region remains heavily influenced by external factors – the main factor newly developed in 2022 being the war in Ukraine.

The economic repercussions of the war have been manifolded. Energy and food prices have risen sharply, contributing to increasing inflation, while the slowdown of the world economy has had an impact on reducing external demand for products and services from the region.

Despite the challenging environment, mid-year estimates for 2022 were optimistic about economic development of the six WB economies. The latest World Bank data shows significant growth rates of the six WB economies.

Table 1. Growth rates in Western Balkans in 2022

Economy	Annual GDP growth rate 2022 (estimate, June 2022)
Albania	3.2
Bosnia and Herzegovina	4.0
Kosovo*	3.1
Montenegro	6.9
North Macedonia	2.1
Serbia	3.2
Average WB 6	3.4
Euro area	2.5

Source: World Bank, 2022a

Economic growth in the first half of 2022 was above expectations, with private consumption and investment being key drivers for growth (World Bank, 2022a). However, Kosovo* faced a slowdown in economic growth in 2022, while inflation rose to a high rate of around 11%.

The relatively good economic performance increased the economic space of the WB economies for advancing on social rights in 2022. And indeed, progress was observed in some areas, whereas other areas stagnated.

Social security systems partially indicate serious deficiencies. While all economies provide for a social security system, no minimum wage guarantee and no child benefits are available in Albania, and no social fund exists in Kosovo*.

In the field of education, the transition between COVID-induced regulations and the daily practice of schooling is striking. The major strength of WB economies' education system lies in the high literacy rates and high enrolment rates. However, the COVID-19 pandemic has influenced schooling quite substantially, particularly with the sudden shift to online learning. In the post-pandemic and digitalisation context, there are growing pressures on education and training systems to adapt and reflect new realities and learners' expectations.

In terms of fair working conditions, rising labour demand due to economic growth has contributed to decreasing unemployment. A high share of the informal sector in WB economies remains a challenge, whereas individual work contracts – if a formal work relationship is established – are highly regulated. Nominal wages have risen during the period under review, but due to a rise in inflation, the impact on real wages is unclear.

In the domain of social protection and inclusion, poverty levels have declined across the region, except for a modest increase in Albania in 2021.

In the pursuit of equal opportunities, there are legal frameworks in place which have been improved in the period under review. However, their implementation is challenging, and gender gaps in employment still persist in the region.

COVID-19 had a particularly strong impact on economic and social development. From 2021, the post-COVID-19 economic recovery began and affected all domains of society: education, the labour market, and social inclusion.

Since the beginning of 2022, external shocks continued – mostly caused by the war in Ukraine. This resulted in the first indications of decline in late 2022 and significant increase in costs of living. Progress towards EU Acquis was particularly

strong in Serbia, whereas progress in Kosovo* could have been stronger. In addition, Bosnia and Herzegovina has been recognised as EU candidate country, and accession negotiations have been opened for Albania and North Macedonia.

Methodological approach

The methodological approach is based on the synthesis of collated data. Thus, a mixed-method research methodology and tools were used to enable the collection of quantitative and qualitative data as well as the triangulation of data from multiple sources and stakeholders to infer reliable findings. The research methodology involved analysing information of existing policy documents, actions, legislative frameworks and their implementation with regard to the realisation of the Pillar principles in each WB economy. This analysis provides inputs for a single and coordinated response to the main challenges faced by each WB economy: inequality, poverty, unemployment, social exclusion, and economic and social disparities. This methodology is applied in all WB economies.

Data sources

The research is largely based on the desk review of primary and secondary information. Primary data were collected through key informant interviews (KIIs) and focus group discussions (FGDs) with the relevant officials, whereas an extensive desk review of existing literature and statistical data contributed to secondary data. The main respondents in these planned semi-structured interviews were representatives from government ministries, statistics agencies, public employment agencies, ministries, departments, and agencies (MDAs) of responsible for matters associated with labour and social affairs, labour associations, economic associations, and academic experts. These interviews were especially helpful to gathering information on policies and actions in drafting stages regarding the realisation of the Pillar

principles. All interviews were conducted, when appropriate, either in person or online/virtually with interviewees identified in advance.

The main sources of secondary data were European-level data sets (e.g. Eurostat), domestic data sources (official statistics) as well as international data sources, such as those provided by the ILO, WHO, WB, UN, IMF, USAID, etc. These data sources were used complementarily to each other. Additional data were sourced from regional platforms such as the RCC Balkan Barometer and the European Social Survey data for the Western Balkans.

Coordination and quality assurance

The WINS Global Consult team consisted of a team lead, one expert for each economy and a backstopper. The six experts were tasked with drafting the reports on the individual economy analyses, while the team lead cooperated with the backstopper to draft the regional overview, and the backstopper coordinated the process and provided quality assurance regarding the content, consistency, clarity, and plausibility of the evidence basis.

The Social Scoreboard for the six WB economies is prepared and analysed for the '2022 Update of the Western Balkans Social Scoreboard' (2021 and Q2 and Q3 2022 data). The economy experts retrieved data for the EPSR headline and the level of disaggregation in an accessible and comprehensive spreadsheet format, whereas the backstopper synthesised the tables into one joint table.

Period under investigation

The 2022 report covers the period from 2021 to Q3 2022. Economically, this period was particularly dynamic; while economic development in 2021 was still heavily influenced by the COVID-19 pandemic, 2022 saw a deep but brief post-COVID

recovery followed by the economic repercussions of the war in Ukraine. There are signs that this economic development has impacted social indicators; however, due to time lag between occurrence and reflection in indicators, and due to restricted data availability, the conclusions remain preliminary.

Data challenges

Due to missing, non-comparable and non-consistent data, the Social Scoreboard is not complete. For some of the WB economies such as Albania, Bosnia and Herzegovina and Kosovo*, Eurostat data availability was limited. In the tables, missing data have been flagged (marked as 'n/a'). Where no data was available from Eurostat and other relevant international or European data sources, each expert consulted local official statistics. Additionally, regional and European platforms were consulted – e.g. publications by Employment and Social Affairs Platform (ESAP), the South-East Europe (SEE) Development Scoreboard, SEE Jobs

Gateway, and the Eurofound (e.g. Observatory of Quality-of-Life, and the Observatory of Working Life). Nevertheless, the comparability and consistency of data remains challenging due to existing structural problems in data sets. As per COVID-19 challenges, the actual COVID-19 situation was monitored. When required, the interviews and FGDs were conducted online/virtually with advanced identified interviewees.

Data protection

Acknowledging the great importance of data protection, local and any other applicable data protection laws and regulations were followed throughout the whole report development process, including the confidential treatment of any personal data. Personal data collected during the key informant interviews and FGDs were processed and analysed with due confidentiality. At all times, compliance with the EU-General Data Protection Regulation (GDPR) and standards of data protection was ensured.

Table 2. 2022 Overview of summaries per each WB economy regarding the ESPR

Albania	Albania shows progress in almost all areas towards achieving the European standards related to the Social Rights Pillar during 2021-2022. Of particular importance is the fact that as the economy recovered and rebounded in 2021, economic inequality declined, access to the labour market improved, and the gender wage gap showed signs of narrowing. A new Strategy for Development and European Integration 2030 was adopted in 2022 to foster the integration in the region and the EU. Nevertheless, some challenges remain, especially in social sectors. Social spending in general remains low. Reasons include a limited coverage by the unemployment insurance programme as well as a limited scope of the social safety net (no guaranteed minimum income, no child or family benefits and limitations in access to health services). As a result, the percentage of population at-risk-of-poverty or social exclusion remains one of the highest in Europe.
Bosnia and Herzegovina	BiH's overall progress towards the principles of the European Pillar of Social Rights remained rather modest in 2021-2022. Reforms move slowly due to the economy's specific political structure that prolongs the design, agreement, and implementation of reforms. However, limited progress was made regarding social policy and employment. Challenges in employment, social inclusion and protection, and poverty reduction remain, the latter being intensified by the complex coordination processes among the responsible institutions across the economy. Although by law, equal access to the healthcare system is guaranteed to all citizens, in practice, accessibility of health care services is limited. The major improvements during the period under analysis are related to labour market and the overall economic development, reflected in an increased employment rate. However, youth unemployment remains high.

Kosovo*	Kosovo* showed modest progress towards reaching the European standards. The trend of economic recovery in 2022 has been coupled with progress in some indicators of the EPSR – particularly in terms of improvements in the formalisation of informal employment, strengthening the position of women in the labour market, decreasing NEET rates amongst youth, as well as in the unemployment rate compared to the previous year. However, some of these results may not be sustained considering the high level of outmigration that has continued in the last year. Additionally, Kosovo* has made progress in adopting laws in compliance with the EU Directives. Still, implementation remains very weak, especially for the labour force in the private sector. The key strategies for education, employment and social welfare have not yet reached the intended objectives.
Montenegro	Montenegro experienced little progress towards social change in line with the Pillar indicators. Some improvements exist along with the persisting challenges. Poverty and social exclusion levels, despite decreasing, remain high, especially for children, persons with disabilities, older people, Roma, and Egyptian population, and for citizens of the Northern region. Positive changes include the increased coverage of children by preschool education, decline of early school leavers, and a slight decrease in the NEET rate. Nonetheless, a comprehensive strategy on education reform is missing. Due to substantial economic growth, the unemployment rate significantly decreased in 2022 compared to 2021 and 2020. Notwithstanding, challenges of long-term unemployment and youth unemployment remain.
North Macedonia	North Macedonia demonstrates some progress on the EU accession path, particularly through the conduction of legislation reforms and the expansion of the social safety net. While the latter was supported by an increased fiscal space due to the post-pandemic economic recovery, progress towards improving the efficiency and effectiveness of the system is still required. As a positive development on the level of strategy, the Revised Employment and Social Reform Programme 2022 provides a good example defining priority reforms and policies in the three priority areas of labour market and employment, human capital and skills, and social inclusion and social protection. Parallely, the new Labour Law is under way, which will introduce regulations on new forms of employment such as online work and work from home. The successful implementation of the Youth Guarantee (YG) Programme, its positive experience, and lessons learnt can be shared in the region.
Serbia	Serbia's overall progress regarding the indicators is rather moderate. While performance in the fields of equal opportunities, fair working conditions, and social protection and inclusion remains below the EU average, progress in legislation is noticeable and largely carried out in line with the EU Acquis. For instance, the Law on Social Cards enacted in April 2022 is expected to reduce the at-risk-of-poverty rate. Furthermore, the Law of Social Entrepreneurship adapted in 2022 is expected to improve the situation on the labour market for vulnerable groups of population.

III. The WB performance in the 20 principles of the European Pillar of Social Rights (Pillar) and Action Plan



A. Equal opportunities and access to the labour market

I. Education, training, and life-long learning

Education system reforms in the Western Balkans have been enhanced, sustaining nearly universal literacy rates and high gross enrolment rates, in particular for primary education. Progress towards universal literacy was particularly notable in BiH, which achieved 98.1% literacy rates in 2021. The Gross Enrolment Rate for primary education in the 2021/2022 academic year was of 95.7% in Albania (Broken Chalk, 2022). According to the World Bank education database, in 2020, the share of the population aged 20–24 years with at least an intermediate level of educational attainment in Bosnia and Herzegovina stood at 79.8% and at 75% in North Macedonia (World Bank, n/d). Although the figure is slightly lower than the EU average, the rates are consistently increasing. The average educational attainment of the population has increased but remains below European Union levels. In 2021, the share of adults aged 25–34 years old with tertiary education ranged from 27.3% (Albania) to 40.4% (Montenegro) (ETF, 2022a), lower than the EU average of 41.2% in the same year. The right to education and its inclusiveness is constitutionally guaranteed across the region.

During 2021 and 2022, new strategic and legal frameworks on education were put into place in Albania, Serbia, Kosovo* and were partially established in Bosnia and Herzegovina. In Albania, Serbia, and Kosovo* new comprehensive strategies with a focus on enhancing quality and inclusiveness in education for children and youth were adopted during 2021 and 2022, as well as a new law on primary education and strategy on pre-university education in Bosnia and Herzegovina's Republika Srpska. In Montenegro, a new strategy on the digitalisation of the

education system has been in force since 2022, alongside the existing frameworks on inclusive and pre-school education and a revised strategy for higher education.

Several challenges overshadow the strengths of education systems in WB, particularly concerning the lower levels of pre-school education enrolment, marked discrepancies in access to education for ethnic minorities, in particular Roma and gender disparities, as well as challenges with the urban-rural divide and quality of education. **The number of early leavers from education declined in most WB economies in 2021 and mostly remains below the EU average (9.7% in 2021).** The rate of early leavers from education and training among the population in the 18–24 age group in 2021 varies in the region from 3.6% in Montenegro to 6.3% in Serbia, except for Albania with rates reaching 16.3% (ETF, 2022a).

The mismatch between supply and demand in the labour market remains an essential concern for all WB economies and has been in the focus of education and labour market reforms in the past years. Recently, North Macedonia developed the 'Concept Paper for Non-Formal Adult Education and Informal Learning' as well as the 'Concept Paper for Primary Education for Adults'. Montenegro and Albania further consolidated their qualification frameworks, in alignment with the European Qualification Framework. Improvement of the quality and relevance of Vocational Education and Training were on the focus of Bosnia and Herzegovina's strategy 2021–2030 and Albania's new Strategy for Employment and Skills 2023–2030. In Kosovo*, the comprehensive education strategy tackles the issues of matching the VET offer with technological advances and labour market demand. Serbia launched the 'Single

Information Education System' project to narrow the gap between education and labour market demands. Economies in the region continue their efforts to improve the relevance of education programmes at the upper secondary and tertiary level also within the context of the commitment of all economies from the region to the Youth Guarantee policy.

Adult participation in education and training remains low across the region. In Serbia, 4.8% of the population aged 24-65 participated in training in 2021, which is the highest rate of participation in the region, despite still falling behind the EU (10.8%). The lack of adult education opportunities and life-long learning affects employability and, therefore, employment opportunities of the

adult population. It also threatens the capacity of economies to manage the effects of the green and digital transitions on the labour market and in human capital development, as well as increasing their reliance on innovative and highly competitive economic sectors or occupations.

The share of youth Not in Employment, Training or Education (NEET) slightly decreased in 2021 in almost all Western Balkan economies, still reaching over 40.4% of the youth population in Kosovo*, 26.5% in Montenegro, 26.1% in Albania, 25.1% in Bosnia and Herzegovina, 24.2% in North Macedonia and 18.8% in Serbia, all above the EU average of 13.1% in 2021 (Table 3).

Table 3. Equal opportunities indicators in the Western Balkans in 2020-2022

Headline indicator	Early leavers from education and training (% of population 18-24)			Individuals who have basic or above basic overall digital skills (% of population 16-74)			NEET (% of population 15-29)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
EU27	9.9	9.7	n/a	n/a	53.92	n/a	13.9	13.1	11.7
Albania	15.6	16.8	n/a	n/a	23.8	n/a	27.9	26.1	n/a
Bosnia and Herzegovina	4.7	4.7	3.9	n/a	34.6	n/a	25.9	25.1	24.4
Kosovo*	7.8	n/a	n/a	n/a	n/a	n/a	40.4	40.4	n/a
Montenegro	3.6	6.7	n/a	n/a	47.2	n/a	26.6	26.5	n/a
North Macedonia	5.7	4.6	n/a	n/a	35.6	n/a	26.2	24.2	n/a
Serbia	5.6	6.2	5.1	n/a	41.3	n/a	20.3	18.8	15.1

Source: Eurostat, n/d; Individual economy reports, 2023; ETF, 2022a

In 2021 the Western Balkan economies made the commitment to develop implementation plans for Youth Guarantee (YG) schemes with the EU support, to facilitate sustainable labour market integration of young people through the provision of a good quality offer of employment, traineeship, apprenticeship, or continued education within four months of leaving school or becoming unemployed. North Macedonia was the first non-EU economy that introduced the YG scheme in 2018, with activities including group and individual counselling, job search as-

sistance services, motivational trainings, and involvement in labour market integration measures (employment, education, and training measures). Additionally, North Macedonia launched the 'Second chance' project to activate the vulnerable groups in the labour market. The preparation of YG implementation plans, and background analyses have been launched in 2022, and several Western Balkans economies have already adopted such plans that enable them to pilot and mainstream YG modelled policy interventions in the future. The work continues in all economies, prioritising the

expansion of administrative capacities, the consolidation of coordination mechanisms involving all relevant actors, in particular youth organisations and social partners, as well as the orientation of future EU financial package (IPA) and donors' support in line with YGIP priorities (ETF, 2021).

COVID-19 impacted the conduction and quality of education processes. The major change brought by the pandemic was the switch to an online format of education. This process came with consequences; for example, in North Macedonia, the duration of classes was reduced from 45 minutes to 30 minutes, thus reducing the learning time. Adult learning was also hit during the pandemic restrictions, with many economies being forced to temporarily suspend investment in (re)training programmes due to the high volatility of skills demand and the rather slow transition to online/blended formats of training. Furthermore, the pandemic revealed multiple structural problems in the education and training system (for children, youth and adults alike), hitting hardest the most vulnerable groups of the population, foremost the rural population without adequate Internet connection. In 2022, after the COVID-19 related restrictions were lifted, the educational process went back to traditional classroom learning, while in case of adult learning, an accelerated digitalisation of access and delivery modes can be noted.

2. Gender equality

Sound legal and strategic frameworks to promote gender equality and non-discrimination are effective and operationalised in the Western Balkans. The adopted strategies and government programmes incorporate important achievements at the legislation level. For instance, the Law on Gender Equality came into force in 2021 in Serbia. Among others, it stipulates the gender segregation of statistical data (Article 12). The Gender Equality Index is calculated in Serbia, Albania, and North Macedonia, but only partially in BiH.

Economic empowerment of women is defined as a priority area for gender equality, yet challenges remain. Some concrete steps were undertaken in that direction. For example, gender-responsive budgeting is integrated in the ALMP in Serbia in 2021. This certainly will help to address the challenge of the lack of gender segregated data to monitor the progress in the domain. Yet, many aspects of gender equality in employment fall behind in practice. The gender employment gap in the region is higher than in the EU, ranging from 11.1 to 29.4 against 10.8 in the EU27 (Table 4). The indicator clearly shows that women in the Western Balkans earn less compared to men. Furthermore, gender segregation in professions largely persists, as women predominately occupy positions in sectors with lower earnings such as health, social work, education, and agriculture. In contrast, men tend to work in mining, construction, and transport sectors. The gender segregation in the labour market also leads to a gender wage gap. It was narrowed in Albania in 2021. Moreover, the income discrepancy results from unpaid household work and family-care functions being traditionally assigned to women. Especially during the COVID-19 pandemic, unpaid work at home increased for women, yet they also stood in the forefront of pandemic as they tend to occupy professions in social sectors of health and education. A higher workload for women generally leads to lower rates of employment and activity on the labour market when compared to men. Additionally, violence against women was reported in all WB societies, including cases of domestic violence in the past years.

Positive developments are observed in terms of the representation of women and the political and managerial positions held by them. Political representation of women in Albania (35.7%), North Macedonia (40.2%) and Serbia (39.4%) exceeds the EU average of 33.2% (EIGE, 2022). Similarly, the number of women in ministerial positions in the government is considerably higher than the 30% gender quota. For example, the percentage of managerial positions held by women in Serbia was of 31.5% in 2020.

Overall, progress in gender equality in the Western Balkans is rather inconsistent and uneven across the economies. Quite progressive legislative improvements towards equality

seem not yet to be accompanied by their sound implementation. Existing structural problems are not yet overcome.

Table 4. Gender employment gap and income inequality in the Western Balkans in 2020-2022

Headline indicator	Gender employment gap			Income inequality Quintile share ratio (S80/20)		
	2020	2021	2022	2020	2021	2022
EU27	11.1	10.8	10.6	4.89	4.97	n/a
Albania	15.2	16.3	14.2	5.9	5.7	n/a
Bosnia and Herzegovina	24.9	26.9	29.3	n/a	n/a	n/a
Kosovo*	28.7	29.4	n/a	n/a	n/a	n/a
Montenegro	12.9	11.1	8.4	6.0	5.8	n/a
North Macedonia	19.9	17.9	15.6	5.9	n/a	n/a
Serbia	14.6	14.9	13.9	6.1	6.0	n/a

Source: Eurostat, n/d; Individual economy reports, 2023; author's calculations

3. Equal opportunities

Social inclusion and equal opportunities are prominent on the policymaking agenda of the region. Protection against discrimination

on any ground (gender, sex, religion, etc.) is constitutionally guaranteed by all Western Balkan societies. A definition of discrimination that goes beyond traditional concepts was extended in some economies, like Albania, by including new discriminatory expressions such as multiple discrimination, intersectoral discrimination, structural discrimination, and segregation. Several economies have introduced legislation and policy measures to guarantee more protection and rights for the LGBTI population. Registration of same sex partnerships and marriages was legalised in Montenegro in 2021.

Youth, certain groups of women, ethnic minorities and people with disabilities remain more susceptible to discrimination.

Rural young people especially remain less economically active, more likely to stay unemployed as well as to fall into the category of the long-term

unemployed. Moreover, they are more likely to hold temporary jobs or engage in the informal economy, a circumstance which sustains their vulnerability.

The COVID-19 pandemic revealed a new dimension of discrimination: health discrimination. It prevailed over other types of discrimination complaints in Serbia in 2021.

The Roma population remains the most disadvantaged minority in all Western Balkan societies.

Their access to education and essential social services as well as to labour markets remains limited, although all economies have undertaken policy measures to support their integration. No instruction in the Romani language is provided either. This hints on the insufficient success of action plans and strategies to include the Roma population in most of the Western Balkan societies. Some economies have recently adopted new strategies for Roma inclusion, e.g. the Strategy for inclusion of Roma people 2022-2030 in North Macedonia, enacted in 2022.

Income inequalities in the Western Balkans are comparable to those of the EU.

The indicator, measured as quintile share ratio, was slightly above the EU average of 4.97 in 2021. It ranges from 5.7 in Albania, 5.8 in Montenegro to 6.0 in Serbia. For BiH, North Macedonia and Kosovo*, this data is not available (Table 4).

4. Active support to employment**Labour markets in the Western Balkan economies recovered remarkably quickly from the effects of the pandemic**

and have performed well during the last two years. Employment levels have increased across all economies, surpassing pre-pandemic levels during 2021 and 2022. Unemployment rates, measured as a percentage of the population aged 20-64, was lowest in Serbia (11.1%) and Albania (11.5%) in 2021. Kosovo* faces the highest unemployment rates (20.7%) and lowest employment (31.1%) in the region, despite consistent improvement (Eurostat, n/d; Individual economy reports, 2023). In general, labour markets in the region face structural challenges ranging from limited employment creation, shortage of skills, low activity rates and the prevalence of low-wage and low-productivity jobs. The average youth unemployment rate (percentage of population aged 15-24) was 35% in the region in 2021, more than double the rate in the EU of 16.6% (Eurostat, n/d; Individual economy reports, 2023).

Labour market policies to support participation in the labour market and increase the skills of the population have been at the focus of government strategies.

Public employment agencies play an important role as the main provider of employment services as well as a mediator between jobseekers and employers. The employment services also fulfil the functions of information and career counselling, which is especially important for vulnerable groups like the NEET and the long-term unemployed. Active labour market measures are key instruments implemented by public employment services to foster

better balance between supply and demand on the labour market and increase the employability of vulnerable jobseekers.

The coverage of active labour market measures is modest.

In 2021, ALMPs in Montenegro and Albania catered to only 2% and 5.5% of registered jobseekers, respectively; in North Macedonia and Kosovo* the figure stood at approximately 8%, and coverage was higher in Serbia reaching 13% of registered jobseekers as of 2020 (Individual economy reports, 2023). Public employment services face several hurdles such as insufficient funding and low capacities. The share of spending on ALMPs in GDP in the Western Balkans remains below the EU average of 0.6% in 2020 (European Commission, 2023) but marked differences in spending are notable between economies, ranging from 0.04% in Albania to 0.3% in Serbia and North Macedonia (Individual economy reports, 2023). Spending on ALMPs has increased in all economies. In spite of this increase, underperformance and low outcomes on employment mediation as well as low coverage by active labour market measures persist. Furthermore, the COVID-19 crisis largely affected the service provision of employment agencies. For instance, registration of the unemployed and the provision of active measures was ceased in North Macedonia during the pandemic. At the same time, workers who lost their jobs due to the pandemic were specifically targeted by other employment and income support measures. Although public employment services and other relevant actors are making efforts to expand the availability of career counselling and guidance for jobseekers and young graduates, access to such services remains rather limited for vulnerable groups, particularly for those not actively searching for jobs and workers (ETF, 2022c).

Several WB economies have undertaken evaluation and reforms to improve the effectiveness of active labour market measures.

The employment promotion measures specifically target the vulnerable groups of population, including women, youth, and the long-term

unemployed. Serbia introduced an additional programme, 'My first salary', to enhance the employability of youth. In North Macedonia, active labour market measures are designed based on an annual skill needs survey results. Nevertheless, the impact of measures on the labour market remains modest. Some economies experience additional burdens on the labour markets, as illustrated by issues associated with the aging of the population in Albania or outmigration in Kosovo*.

Employment and skills development are in the special focus for governments in the region and are reflected in the development strategies of

most WB economies. Ongoing measures to improve the impact of labour market policies include the need to enhance the capacities of employment services to enable them to expand and update job mediation and counselling services, the digitalisation of employment services, tailored measures for women and youth labour market participation, as well the integration of minorities and the long-term unemployed into the labour market. Adult training, reskilling, and upskilling of the workforce has been identified as one of the key measures to address the shortage of skills in the labour market as well as improve the employability of the most vulnerable.



B. Fair working conditions

5. Secure and adaptable employment

Labour markets in the WB region have seen a significant improvement in 2021-2022, although the impact of the surge in inflation and the rise in food and energy prices in the second half of 2022 is yet to be accounted for. However, available data show a general positive development in quantitative labour market indicators. According to Eurostat (n/d), employment rates increased significantly throughout the region, with the notable exception of Serbia. Still, Kosovo's* headline labour market indicators are far from positive, and due to missing data, information on current labour market trends is not available.

Concurrently, unemployment has shrunk during 2021-2022. Even though unemployment rates in the WB region are substantially higher than the EU average, available data show a notable decrease in unemployment in the economies of the WB region. Labour market recovery has benefited vulnerable groups such as youth, women and the long-term unemployed. Long-term unemployment has decreased across the region in 2021-2022, although, during this period of high labour demand, the levels of long-term unemployment (between 3.8% in Serbia and 11.2% in BiH) remain significantly higher than the EU27 average of 2.8%.

Table 5. Fair working conditions indicators in the Western Balkans in 2021-2022

Headline indicator	Employment rate (% of population 20-64)		Unemployment rate (% of labour force 15-74)		Long-term unemployment rate (% of labour force 15-74)		Real gross disposable income of households per capita increase (Index=2008)	
	2021	2022	2021	2022	2021	2022	2021	2022
EU27	73.1	74.7	7.0	6.1	2.8	2.4	110.27	n/a
Albania	66.3	69.7	11.5	10.6	7.2	7.7	n/a	n/a
Bosnia and Herzegovina	52.6	54.0	17.4	14.8	13.7	11.2	n/a	n/a
Kosovo*	31.1	n/a	20.7	n/a	60.7	n/a	n/a	n/a
Montenegro	54.2	64.5	16.8	13.4	11	9.9	n/a	n/a
North Macedonia	59.5	61.9	15.7	14.3	12.5	n/a	n/a	n/a
Serbia	66.7	69.3	11.1	9.4	4.9	3.8	n/a	n/a

Source: Eurostat, n/d; Individual economy reports, 2023

Across the Western Balkans, there is a **high level of regulation of work contracts** in the formal sector. The majority of work contracts is indefinite, but an increasing trend in the percentage of fixed and short-term contracts is noticeable in most WB economies. In terms of the formalisation of employment, oral work contracts are usually possible, but most work contracts are concluded

in writing. For example, in Serbia, 95% of work contracts are in writing and only 5% are concluded orally. Recent amendments to the labour legislation in Serbia related to seasonal and temporary employment have been criticised by unions and other stakeholders for having increased precariousness in the labour market. Other WB economies, such as Albania, also regulate temporary

employment to provide sufficient guarantees for the equal treatment of employees.

The share of informal employment in the labour market remains high, although it is declining in most WB economies. In the EU, it is estimated that 11-12% of the economy is informal, whereas these estimates are considerably higher for WB. Due to the nature of the informal sector, data on informal employment is inexact. However, existing observations from WB economies draw quite a consistent picture. For Albania, the LFS estimates that in 2021 29% of employment outside agriculture belonged to the informal sector. Comparably, for the economy of BiH, approximately 30% of employment is informal. In 2021, 36% of employees in Kosovo* worked without a contract, while in North Macedonia the share of informal sector is estimated to amount between 24% and 47% of GDP – at least double the official record of 12% informal employment.

Flexibilization of work relations has led to growing informality among the highly qualified. While data on the substantial informal sector indicated that the sector is traditionally characterised by low-value and low-qualification employment, the labour market has changed in the wake of the COVID-19-related work restrictions and social distancing, which brought forward a drastic flexibilization of working relations – part-time work, remote work, freelance work/self-employment, etc. So far, governments and legislators have not found ways to formulate an appropriate regulatory response. Therefore, the legal and regulatory framework has not developed as quickly as the labour market has changed. In BiH, online platforms have become a major work platform for digital jobs. As a consequence, central issues (i.e. social security for workers) remain unregulated and a growing sector of highly productive, very mobile, and highly qualified informal working relations has emerged. In North Macedonia, it has become clear that current regulatory instruments are not appropriate to formalize work outside of employment premises. Developments in Serbia exemplify

the trade-offs for governments, lawmakers, and labourers when developing the regulatory framework: while amending existing labour legislation with the intention of adapting it to emerging forms of work and allow for labour flexibilization, the very same amendments result in reduced coverage of social security for labourers. On top of labour legislation implications, growing digitalisation and flexibilization of work arrangements including new forms of employment require holistic reforms covering access to career guidance, skills recognition, and social protection and active employment measures for workers, particularly young people, as the employment-unemployment (idleness) transitions are extremely dynamic for categories of workers involved in digitally driven labour markets, e.g. platform work (ETF, 2022b).

The establishment of minimum wages have led to a significant improvement of employment quality in the region. Despite the already quite high standard of regulation of employment conditions in the economies of the WB, the adoption and strengthening of minimum wage legislations in Albania, Bosnia and Herzegovina and North Macedonia has significantly improved the conditions for an increase in disposable income in the region during 2021-2022. However, in contrast to the other economies in the region, work conditions in Kosovo* remain fragile; in the economy, the rates of 56.5% of temporary employment outweighed those for permanent employment in 2021.

Roma, youth, and women remain the most vulnerable groups of population. Despite improvements in economic conditions, patterns of vulnerability have not changed throughout the region.

6. Wages

Average nominal wages have increased, but the effect on real wages is often unclear. While nominal wages have increased throughout the region, rising inflation in the second half of

2022 has impacted the purchasing power of citizens of the WB region. The resulting picture is mixed: while Serbia has seen a 3% growth in real wage levels until Q3 2022 and Albania has reported a real wage increase of 4.4% in 2022, inflation has eaten up most of the increase in nominal wages in BiH (10% growth in nominal wages year-on-year in Q2 2022) and North Macedonia.

Although governments have reacted to rising prices, partly through the formulation of price caps, one-off pay-outs, through increasing minimum wages – Albania has even increased the minimum wage twice – or even with institutional changes (e.g. in Serbia, the minimum wage is now under the scope of the government rather than the agency as before) the net effects of wages increase and rising inflation is not yet clear. Even though Kosovo* remains the economy with the lowest average gross wage across the WB economies, the minimum wage has not been increased since its introduction in 2011. In addition, important parts of legislation on public sector wages have been declared invalid, which decreases the predictability of both public sector wages and public budgets.

Most WB economies have established a minimum wage. In Montenegro, the minimum income is guaranteed by law. This also serves as the basis for minimum social benefit amounts. In Montenegro, a minimum wage has existed for a long time, and it was substantially increased (by 80%) in 2021, from a monthly EUR 250 to EUR 450. It now sits at 62.5% of the average wage in the economy – which is a considerably high ratio. The minimum wage was further increased by 80% in Montenegro in 2022.

The development of wages has brought some interesting impacts and insights in 2021-2022. As one observation, the gender wage gap in Albania has reportedly decreased from 6.6% in 2018 to 4% in 2021. In North Macedonia, data reveals that a rising minimum wage has not crowded out the least skilled employees; labour demand

was strong enough that, despite substantial rise in minimum wage, unemployment among the least skilled workers has not substantially increased.

Wages have increased faster than productivity in most of the economies in recent years. From 2021, the trend was reversed in Albania, Bosnia and Herzegovina and Montenegro, whereas it persisted in Serbia, Kosovo* and North Macedonia. The divide between labour costs and productivity may undermine competitiveness of economies going forward (World Bank, 2022b).

7. Information about employment conditions and protection in case of dismissals

Formal employment relations are comprehensively regulated across the WB economies. The labour laws require work contracts to describe employment conditions, usually define the conditions for contract termination and regulate compensations and the rights and obligations of employers and employees. Adequate protection is provided for employees in case of dismissal and other workplace related disputes or discrimination.

8. Social dialogue and involvement of workers

The strength and relevance of social dialogue varies across the six WB economies. While in Albania social dialogue is highly considered as a formality, in Montenegro, tripartite social partners conduct active dialogue and have achieved significant improvements of working conditions in 2022 through general collective agreements, which include regulations on night and overtime work. In Kosovo*, social dialogue takes the form of mandatory public consultations in legislation and policy drafting. In the Federation of BiH, social dialogue is described as weak, and the Brcko District adopted a new law on employment mediation in 2022. North Macedonia has a strong appreciation for collective bargaining (at least in the public sector).

However, during COVID-19, collective bargaining was compromised. Furthermore, collective bargaining does not provide good results for private sector, mainly due to a lack of trust.

9. Work-life balance

Work-life balance levels differ in the region.

Nevertheless, across the WB economies, levels of work-life balance are lower than in EU economies. In Albania, 75% of employees work 40 hours or more per week, and only 23% of workers in Kosovo* feel that working hours fit at least “well” with family and social commitments outside work.

Work-life balance presents higher challenges for women than for men.

Across the region, there is a tendency of work regulations supporting conventional work relations and traditional family relations. In terms of a work-life balance, regulations on parental leave are a central issue. In Kosovo*, it is particularly challenging to attain a decent work-life balance for young women, as the labour legislation only foresees a very short maternity leave and even this is reportedly often not adhered to, due to widespread limited respect for labour rights. On the other side of the spectrum, in North Macedonia, collective labour agreements have established regulations for 9 months of paid maternity leave – which is above the EU average. Parental leave is often focused on women, while parental leave for men is limited. In BiH, the lack of accessible and affordable childcare has been mentioned as an additional factor which limits work-life balance. However, some benefits were increased in 2021-2022; for example, in 2021, maternity benefits for unemployed women in Kosovo* were extended substantially.

10. Healthy, safe, and well-adapted work environment and data protection

Regulatory standards on occupational health and safety are usually well developed across the WB region. In North Macedonia, occupational health and safety standards are particularly well governed through laws and institutions; in 2021, a strategy to further strengthen occupational health and safety was enacted. This strategy seems to bear fruits: workplace injuries in the economy are relatively low compared to EU levels, and fatal injuries are below the EU average level. In Albania, accidents at work have strongly risen in 2021 (an 18% increase from 2020), which might be a result of increased economic activity. The level of fatal accidents, however, is comparable with the EU average. In BiH and Kosovo*, occupational health and safety regulations are clearly defined; nonetheless, although the legal framework is in place, implementation is particularly weak in Kosovo*.

The economies of the region are characterised by a sketchy framework on data protection.

Although most WB economies have regulations or laws in place addressing the matter, as exemplified by the data protection law of Kosovo*, the scope and levels of implementation seem to vary. In BiH, for example, data of labourers is particularly well protected. As a forerunner, Albania has introduced a comprehensive transfer of public services online in 2022. Since 01 May 2022, 95% of government services can be undertaken online via the e-Albania online portal; this process of digitalisation was made possible through the central management of all public databases.

C. Social protection and inclusion

The region has achieved important gains in poverty reduction and social inclusion. Poverty is estimated to have declined in all six WB economies (except for a modest increase in Albania in 2021), supported by sustained economic growth. However, the share of citizens that are at-risk-of-poverty or social exclusion in the region in 2021 was substantially higher than the average of 21.7% in the EU27, indicating the prevalence of multiple vulnerabilities and forms of deprivation that go beyond income and consumption.

11. Childcare and support to children

Childcare services are gradually increasing, but access to pre-school education remains limited. Availability of basic childcare services is higher in larger and/or more affluent urban centres. Access to early childhood education facilities is lower for children from vulnerable families, particularly for those from rural areas and from the Roma minority. Coverage of childcare services has improved throughout the region, although it differs greatly amongst the WB economies. The lack of accessible and affordable childcare hampers women's participation in the labour market, as observed in BiH and other economies. Similarly, in Kosovo*, low accessibility of early childhood education and care is observed. In North Macedonia, childcare was broadened in 2021, increasing the number of children in childcare institutions by 17.7%. Access of children in the age-group 5-6 to pre-primary education is higher than for younger age groups – in Kosovo*, attendance was made mandatory from 2022.

The incidence of poverty and social exclusion is considerably higher for children and the road to establishing effective child protection systems remains rocky. At-risk-of-poverty levels are higher for children than for the average population, and children from vulnerable groups are more likely to be poor and have poor-

er access to services. Social protection systems in place for children include family and categorical benefits as well as child allowances. In Kosovo*, a universal child benefit scheme was introduced in 2021. However, the inclusion of children with disabilities remains a challenge. In the FBiH, no progress can be reported on child rights, whereas in Republika Srpska, the revision of legislation on child protection has led to an expansion in scope and increased financial allocations for children. In Montenegro, two amendments to the Law on Social and Child Protection were adopted in 2021, recognising the right to child allowance for all children up to the age of 6 and later expanding child benefits universally to all children under the age of 18 from October 2022, with subsequent changes of the law. Albania is the only economy in the region which does not have a child benefit system in place, apart from a one-off lump sum payment at birth.

In terms of the social inclusion of children and youth, although there are steps forward in childcare, children with a background from vulnerable groups tend to face challenges in integration. One instance exemplifying this situation is the case of Kosovo* where children from Roma, Ashkali and Egyptian communities face challenges to access education, as do children from Roma or other vulnerable households generally in the region. In BiH, no progress was recorded regarding child rights in 2021-2022. In 2021-2022, the government of Albania developed a new agenda for the rights of children and continued the implementation of the deinstitutionalisation of children from social care services. Child protection services and social care services are provided mainly at the decentralised level across all economies.

12. Social protection

There is a long way ahead to achieving adequate social protection systems in the



region. Although the six WB economies have developed instruments and systems for social protection, their scope and impact leaves room for improvement. Social protection systems in the region consist of social insurance, social assistance, social care, and labour market programmes. Spending on social protection in the region is lower than in the EU, ranging from 9.6% of GDP in Albania to 13.6% of GDP in Serbia. Social protection benefits (apart from pensions) have a significant effect in lifting people out of poverty: in 2020, social transfers resulted in the reduction in the number of people at-risk-of-poverty in the region by an average of 16.5%. In Albania, where the size of benefits is modest, social transfers lifted 12.7% of people out of poverty in 2021, while in Serbia, this ratio was as high as 28.1%, closer to the EU average of 27%. In North Macedonia, the AROPE rate before transfers was 42.1%, a figure that decreased to 21.8% after their conduction. This is an indicator that the system is well targeted: the system of social protection in the economy is quite

elaborate and equipped with various instruments. Moreover, the new Law on Social Protection led to progress in social inclusion and in 2021, the government set an ambitious goal to reduce absolute poverty rate below 1%. Targeting and adequacy of poverty assistance schemes should be improved across the region, although several economies revised the benefits level to counter the effects of the pandemic and of the Ukraine war. In BiH, significant discrepancies exist in social protection systems amongst the entities. In contrast, spending on social protection in Montenegro is double that of Albania, namely accounting for 20% of GDP.

In Kosovo*, a public health insurance does not exist yet. Most workers are not covered by any health insurance. Major issues include limited sickness benefits as well as insufficient protection against work related diseases.

In North Macedonia, the social assistance scheme is the only poverty-targeting scheme in place, al-

beit limited in scope and scale, as it only reaches a fraction of the poor.

13. Unemployment benefits

Unemployment benefits are guaranteed across the region, but their coverage is low.

Unemployment benefits (UB) are usually targeted at persons who lost their formal sector job, covering the time needed to seek new employment. UB are usually contribution-based, meaning that eligibility for benefits is often linked with participation in social insurance schemes, with the notable exception of Kosovo*, where UB is non-contributory. Unemployment benefits cover between 4% and 7% of the total number of the registered unemployed in Albania, Bosnia and Herzegovina, North Macedonia, and Serbia. Coverage is higher in Montenegro (reaching approximately 20% of the registered unemployed in 2021). In Kosovo*, UB takes the form of a means-tested social assistance benefit. The typical duration of unemployment benefits is 12 months, but it can be as high as 24 months in Serbia. In general, a low number of the unemployed is eligible for unemployment benefits, hinting at challenges in the design of these benefits.

The adequacy of unemployment benefits to bridge the income gap is a concern in most of the region's economies. UB is typically anchored to a percentage of the minimum wage, whereas it is pegged to the average wage in Montenegro. UB in Albania is very low, both in terms of GDP share (0.04%) as well as the benefit amount (flat rate, tied to 50% of the minimum wage). In BiH and North Macedonia, UB is also modest with low benefits (respectively 40% and 50% of the minimum wage). Unemployment benefits were previously high in Serbia and were assessed to create disincentives for new employment – recent revisions set the benefits to amount between 52% and 120% of the minimum wage, with the majority of beneficiaries receiving the minimum amount. In Kosovo*, benefits are very limited in scope and scale. In Montenegro, the benefits – which were already well defined –

were further developed in 2021-2022. The total number of UB beneficiaries are on the decline in most economies, primarily due to a considerable labour market recovery in 2022.

14. Minimum income

Social assistance programmes provide income support for low-income households, but their coverage is low due to restrictive eligibility criteria. Social assistance programmes are typically means tested, based on a set of stringent categorical eligibility criteria that exclude large shares of the poor population, as is the case in Kosovo* and Serbia. Targeting of social assistance programmes is good, with the majority of support going to the poorest quintiles.

Adequacy of social assistance benefits is unsatisfactory in the majority of economies, with the size of benefits falling short of bridging the income gap needed to provide a minimum standard of living. In North Macedonia, however, benefits are calculated based on a periodically adjusted Guaranteed Minimum Allowance. In Albania, a minimum standard of living is yet to be legally determined, with social assistance benefits being significantly low.

Social assistance benefits were adjusted to provide income support to weather the effects of the COVID-19 pandemic and additional measures were put into place to counter the effects of price increases due to the Ukraine war. In North Macedonia, the number of recipients of minimum allowance has been rising in the past two years but is falling since July 2022.

15. Old-age income and pensions

Population ageing and shrinking due to migration pose threats to the pension systems of WB economies. While life expectancy is increasing, the population is rapidly shrinking and ageing, putting pressures on the fiscal sustainability of pensions systems, typically based on the

pay-as-you go principle. High informality in the labour market leads to low compliance with social insurance contributions, although labour market improvements in recent years have led to an increase in the total number of contributors. Dependency rates are quite low across the region – ranging from 1.17 in FBiH and Albania to 1.7 in Serbia in 2021.

Reforms in the pension systems have aimed at increasing financial sustainability and decreasing deficits funded through the public budgets. These reforms have often come at the expense of the adequacy of benefits, as is the case for Albania and Serbia. The comparison reveals that the economies in the WB region rely on inefficient pension systems. Albania, for example, has a low replacement rate of 49%, and the system of North Macedonia, although having a replacement rate of 58.1%, is still far from the average in the EU (74%). In Montenegro, pensioners are not at high risk of poverty, mainly because the size of benefits is relatively generous. The minimum pension was increased by 10% in 2021.

Pension systems in the WB economies come under pressure in more ways than one. Although most pension systems are contributory, contributions cover only a small part of the pensions, the deficit being financed from general tax revenues. In Kosovo*, the pension system is fragmented between a non-contributory scheme, providing most pensions, and a contributory pension scheme that was first established in 2002. Coverage of the contributory system is low, whereas the non-contributory scheme provides categorical benefits. There are large inequities between the various types of pensions.

16. Healthcare

With the subduing of the COVID-19 pandemic, public health systems in the WB economies have gained breathing space after 2 years of COVID-19 related challenges. Healthcare coverage is universal in each of the six economies. However, the

quality of health services leaves room for improvement and the share of out-of-pocket payments is estimated to be high in most of the region.

Healthcare professionals are increasingly leaving the public system to work abroad or in the private sector. Increased investments in the health sector have aimed at introducing management information systems, strengthening primary healthcare, and improving the responsiveness and quality of services. In BiH, the public health system has a relatively broad coverage and also covers persons with little or no ability to pay for health care services. In Kosovo*, theoretically, access is universal; however, in practice, the healthcare system is underfunded and overused. Because means for health are limited, the sector is underdeveloped, and patients' needs are largely not met.

Financial sustainability of the health sector is fragile across the region. In Montenegro, the abolition of mandatory healthcare insurance with the implementation of the 'Europe Now' programme has further increased the fiscal burden of healthcare expenditure on the public budgets.

Health care services include immunisation, which is almost universal across the region. In Montenegro, and other economies, there was a specific focus on COVID immunisation in 2021. In North Macedonia, the picture is diverse: although primary health care is improving, the number of general practitioners is rising, but it is still well below the EU average.

17. Inclusion of people with disabilities

Policies for the inclusion of people with disabilities have been adopted throughout the region, but this remains a weak spot. Relative to GDP, spending on disability benefits has decreased in Albania in 2023 and the adequacy of disability payments remains a cause of concern. In Bosnia and Herzegovina, persons with disabilities (PWD) have high unemployment rates. The legal framework in the Federation of Bosnia and Herzegovina is under

reform but has not yet been adopted. A similar situation emerges in Kosovo*: persons with disabilities (PWD) lack adequate access to education, health, and social services. Montenegro has made some improvements in strengthening legal, strategic, and institutional framework for the inclusion of PWD, including setting up a specific court for protecting the rights of PWD, and a disability allowance scheme is in place. Nevertheless, the inclusion of PWD remains a challenge: for example, only 2.5% of buildings in Montenegro are appropriate for people with disabilities.

The integration of people with disabilities in the labour market has been targeted by most economies through the introduction of employment quotas. In BiH and Kosovo*, the employment quotas are not implemented. Albania has recently operationalised a disability employment levy for employers who do not comply with the quota.

18. Long-term care

The economies in the WB all have institutions for old age care. However, the systems have a long way to go to adequately cope with ageing societies. This is the situation in Albania as well as Bosnia and Herzegovina, where only a minimal capacity of institutions exists to cope with the challenges of an ageing society through the provision of health and social services. BiH has the lowest public spending on long-term care in European countries. Furthermore, the economy shows a strong urban-rural discrepancy as services are almost exclusively available in urban areas. Kosovo* shows a similar picture. The obligation to care for the elderly – both financially and through service provision – lies with younger family members. Consequently, there are only a few publicly provided long-term care services. The quality of services in the few existing residential care centres is still lacking.

In Montenegro, in 2021-2022, a substantial increase in the number of establishments providing long term care occurred, albeit from a low benchmark: one new home opened, and another is prepared for opening in 2023.

19. Housing and assistance for the homeless

Strategic frameworks and legislation on social housing and combating homelessness have been developed in recent years.

A new social housing law is in the adoption stage in Montenegro. Social housing services are in a limited supply across the region. In Albania, after the earthquake in 2019, a high demand for housing emerged, leading to a surge in public expenditure on social housing. In BiH, no clear legal framework addressing the matter has been developed.

Accurate data on the number of homeless people are scarce across the region. The demand for homeless shelters is high, but capacity is modest. In BiH, there is a very limited capacity to provide shelter for the homeless. Similarly, in Kosovo* access to social housing is very limited. Municipal housing programmes do not match the demand. The economy also shows signs of ethnic segregation in housing: Roma, Ashkali and Egyptian communities still contend with the poorest housing conditions.

On a positive note, in Montenegro, a law on social housing has been drafted, which is expected to regulate the sector. In North Macedonia, the plan for deinstitutionalisation is under way, being based on efforts to transfer homeless individuals from institutions to foster families.

20. Access to essential services

Access to essential services is widespread for most of the population in the region. Rates of access to electricity are close to universal. However, citizens in WB economies increasingly struggle with rising energy prices; in Kosovo*, for example, due to the war in Ukraine, energy prices soared. In BiH, access to electricity for socially vulnerable groups legally improved in 2021.

In most WB economies, more than 90% of the population has access to water. This figure amounts to 96.8% in Kosovo*, and 92% in Montenegro. In

Albania, access to water is lower than the EU average, and in BiH, access to water is legally defined as an economic service of special interest, but not granted to everyone.

Regarding sanitation, the connectivity of households to sanitary infrastructure is significantly lower and access levels vary across the WB economies. While in Kosovo*, approximately 97% of households are connected to the sewage system, the percentage is 92% in Montenegro, and around 75% in North Macedonia. In BiH, a rural-urban divide in access to sanitation has been observed.

Other essential services include public transport and access to the Internet. In North Macedonia,

public transport is being redeveloped after the pandemic. In 2022, 86.6% of North Macedonia's citizens had access to the Internet at home. This was an increase of 3 percentage points compared to 2021.

Increased access to financial and digital services has emerged in the region, partly accelerated by the changes induced during the COVID-19 related restrictions. All economies report increased volumes of card and digital payments and governments are increasing the availability of online services. Digital literacy is on the rise, but remains low by European standards, particularly for older people and those from disadvantaged socioeconomic backgrounds.



IV. Conclusions and recommendations

As an overarching result, the 2022 review reveals that, although there is still some way to go to reach the headline indicators of the EU as a standard, the six WB economies have recorded moderate progress during 2021-2022.

Availability and comparability of data remain a challenge in the region. While data is crucial for monitoring the progress towards the EU accession, the region is only scarcely covered with adequate and up-to-date data. This shortcoming has impacted the review as the absence of timely, reliable, and comparable data makes progress monitoring somewhat patchy.

The period under review has been characterised by opposing framework conditions. After a brief economic respite in the aftermath of the COVID-19 pandemic, the economic fallout of the war in Ukraine ended the recovery, mainly due to soaring food and energy prices, as well as a general inflation. The abrupt halt might have contributed to continuing economic challenges, as exemplified by higher unemployment and inactivity rates. In addition, an earthquake in Albania and political instability in Montenegro contributed to headwinds in economic progress in 2022. Nevertheless, most of the economies show signs of economic recovery, and structural reforms are underway.

Progress is mainly observed in the development of legal frameworks. Despite the slowdown in social and economic life due to the COVID-19 pandemic, legislators across the Balkans have actively contributed to adopting favourable policies.

New laws were adopted in 2021 and 2022, such as guaranteeing energy provision to socially vulner-

able groups in BiH, the formalisation of informal employment in Kosovo* or progress in the implementation of the EU Acquis in Serbia, which registered strong developments in this regard, and Kosovo*, which signalled modest developments in the implementation of the Acquis. Although the legislative frameworks show positive developments and despite specifically favourable regulations in place and rights anchored in laws, their implementation (and use) is (still) rare – which is understandable, given the “normal” lag between the adoption of a new regulation and its impact on citizens’ behaviour. Thus, it is too early to assess the impact of recent developments in the legal framework on WB economies.

As one of the direct effects of the pandemic, labour markets in the region have changed – in particular, remote work has become the norm in some working relations. This posed a challenge for labour market regulations among WB economies, which are traditionally based on a model of standard employment (regulated working hours per day, attendance in the employer’s premises etc.). WB economies, as is the case for legislators elsewhere, struggle to design an appropriate regulatory framework to encompass untypical working relations, which leads to a new sector of insufficiently regulated work – an “informal sector 2.0”. Regarding the gender gap, despite the challenging environment, Western Balkan economies have even surpassed some European indicators. For example, the indicator on early leavers from education and training is lower in the Western Balkans than in the EU27. Similarly, female political representation in Albania, Serbia and North Macedonia is higher than in the EU.

While the legislative landscape regarding data protection is sketchy, Albania has become the forerunner in the online provision of public services. Since 01 May 2022, 95% of government services in the economy can be carried out online through its portal e-Albania, accompanied by the central management of all public databases.

Proposals for regional priorities and actions in the short-to-medium term

The review strongly suggests that there is a need to align adult education and life-long learning with labour market needs across the six Balkan economies, to narrow the mismatch between labour demand and supply. This will contribute to reducing persistent unemployment and creating opportunities. Targeted qualification measures (involving both training and retraining) for young persons and females can further support the inclusion of vulnerable groups into the labour markets.

As the indicators reveal that opportunities are still unequally distributed, it is recommended that the six VWB economies establish initiatives to implement equal opportunities and inclusion of discriminated groups, bearing in mind that this is a precondition for improved economic opportunities and therefore for a more balanced economic development.

More attention and support should be provided to the integration of vulnerable groups. This is one of the cross-cutting findings of the investigations conducted: the inclusion of vulnerable groups is still far from achieved. The report provides a plethora of examples for this shortcoming: from access to education to practices of fair labour relations, a lack of integration into the labour markets can cause resignation on the side of immigrants, particularly in a situation where social safety nets are designed to be “defensive” – providing minimum protection against severe hardship. Social safe-



ty nets in the region do not yet have the capacity nor the instruments to mobilise the excluded and vulnerable groups by expanding opportunities and supporting the sustainable (re-)integration of these groups into labour markets and society.

Social safety nets in most WB economies, excluding Montenegro, remain modest, both in the scope of benefits as well as in their volume. At the same time, there is room for improving the efficiency of existing social services. The pension system, which

is possibly the best developed arm of social safety net in the region, is a case in the point.

The status of social safety nets in the region implies that a core policy toolbox for protecting, (re-)integrating and (re-)activating vulnerable groups is underdeveloped. It is recommended to analyse the status of these systems and to develop a strategy for reforming social safety nets of WB economies taking into consideration the EU standards and practices.

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Annex - Fiche on social entrepreneurship

This fiche presents the current state of affairs of social entrepreneurship and the social economy in the Western Balkan region, as well as recommended actions from a regional perspective.

Social entrepreneurship in the Western Balkan region is in rather early development stages. In contrast, the legal framework attending to the matter – one of the fundamental aspects to enable further development of the sector – varies from society to society. While some economies like Albania and Kosovo* adopted the laws on social entrepreneurship, others like North Macedonia and Montenegro are currently waiting for drafted laws to be enacted. Serbia recently passed the Law on Social Entrepreneurship in November 2022. In BiH, the situation differs even within the economy. Whilst the Federation of Bosnia and Herzegovina has not enacted the Draft Law yet, two entities – Republika Srpska and Brčko District – adopted the Law. Thus, an enabling legal framework is largely missing.

In the cases when no effective law exists yet, other related strategic documents regulate the activities of social enterprises and the domain of social entrepreneurship in general. These are mostly laws on small and medium enterprises (SMEs), entrepreneurship, or employment. Furthermore, the role of social entrepreneurship in social sectors is acknowledged and anchored in development strategies. Commonly, social entrepreneurship is seen as a remedy to address the shortcomings of existing efforts aimed at poverty reduction and employment promotion, being mainly reflected in youth or female entrepreneurship strategies.

In some societies, like North Macedonia, there is also other functioning policy infrastructure in place. The adopted Strategy for Development of Social Enterprises in North Macedonia 2021-2027 sets the priorities and provides basis for the action plan for its implementation. The network of entrepreneurship centres in Skopje and other parts of North Macedonia provides support for local actors from communities, municipalities, civil society, and companies to jointly develop initiatives in social entrepreneurship. The Entrepreneurship Support Agency of North Macedonia assists businesses in different ways, including through the provision of subsidies, grants, and trainings.

Furthermore, the definition of social entrepreneurship itself varies across the region. Nevertheless, the common shared feature is its purpose. By common consent, social entrepreneurship is understood across WB economies as those enterprises which aim to solve social issues and achieve social impact while targeting vulnerable groups of the population. Typically, the issues tackled by these initiatives are employment promotion, inclusion of people with disabilities, provision of social care services, and environmental protection. In some economies, such as Serbia, the definitions are synchronised with the EU regulations. According to the OECD (n/d), a social enterprise is defined as:

“(...) any private activity conducted in the public interest, (...), whose main purpose is not the maximisation of profit but the attainment of certain economic or social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment”.

The lack of a standardised and sufficiently broad definition and specific law has multiple effects on the functioning of social enterprises. Fiscal aspects are regulated differently. For instance, in Albania, social enterprises pay the same taxes as other non-profit organisations (NPOs) with economic activities. In contrast, Serbia entitles them to tax reliefs, decreased social insurance contributions and other benefits. The registration of social enterprises is rather difficult due to either strict or unclear eligibility criteria. The process of registration has only started in the past years and is characterised by a low number of applications. The latter apparently is a result of the immense amounts of required documentation.

Because of these obstacles, the number of registered social enterprises remains low in the region. For example, only nine NPOs in Albania received this status in 2022. Besides, financial incentives seem to be insufficient for a business to be registered as a social enterprise.

The main implementers of social entrepreneurship activities are non-governmental organisations (NGOs). Due to their legal status and nature, they usually lack the capital required to carry out social activities and often also lack capacities. Although such enterprises do create social impact, they also need to build up their own capacities adequately.

A commonality for all Western Balkan economies is that social entrepreneurship is primarily driven by the international donor community. Funds are predominately provided by international organisations like the EU, UNICEF, UNDP, USAID, among others. Various grants and projects support the development of legislation, procurement of equipment, capacity building and establishment of business incubators. Dependence on external funding implies that social enterprises are often short-term in nature. On the other hand, domestic public funding is limited. The governments where the Laws on Social Entrepreneurship are adopted provide subsidies and financing for social enterprises. A good practice of financing based on the co-financing for social purposes was introduced in Montenegro. In the economy, the projects and programmes carried out by NGOs supported by the European Union can be co-funded in the amount of at least 0.1% of the annual budget, in accordance with the Montenegrin Law on Budget.

One of the rare examples of regional social entrepreneurship is the incubator for social entrepreneurs in the Western Balkans RISE (RISE, n/d). It was launched in 2019 to promote youth-led social entrepreneurship in the region and is funded by the French Development Agency (AFD) and the EU. The RISE network covers local incubators, present in all 6 economies, including Yunus Social Balkans in Albania, Nesto Vise in BiH, Balkan Green Foundation in Kosovo*, IEC Technopolis in Montenegro, ARNO in North Macedonia, and Smart Kolektiv in Serbia. The fields in which these projects perform their activities include circular economy, eco-tourism, agriculture, education and culture, health care, and technologies.

There are barriers to the development of social enterprises and social entrepreneurship in the Western Balkans. These include the lack of enabling legal frameworks, non-standardised or restricting definitions, inadequate and insufficient financial instruments to support social entrepreneurs, a low level of knowledge (know-how) on the topic, and the absence of quality connections among the stakeholders. Furthermore, low public awareness of the issue, insufficient capacities of implementing organisations, and limited and rather short-term funds further hinder the development of social entrepreneurship in the region.

To address these challenges, the following **recommendations** can be considered:

- I. Amendments to legislation;
- II. Enactment of existing laws;

- III. Introduction and specification of the definition of social entrepreneurship;
- IV. Harmonisation with the other laws within the economy.

In the case of Bosnia and Herzegovina, the establishment of a mechanism across the entities can promote a friendly environment for social entrepreneurship. Additionally, public funding sources, coordination mechanisms among the actors, fiscal and other incentives for social entrepreneurs, less bureaucratic procedures of registration with clear and feasible criteria can all boost social entrepreneurship. Moreover, capacity building measures for staff of social enterprises and public awareness raising campaigns on the topic would be beneficial. For instance, North Macedonia holds an annual 'Social Impact Award' to promote youth entrepreneurship. Specifically, from the regional perspective, good practices can be potentially scaled up, and related experiences and lessons learned can be shared across the region.

Finally, it is recommended to consider the broader context of ecosystems for social entrepreneurship (European Commission, 2020). This involves other sectors and actors. For example, financial institutions should be engaged to develop financial services tailored for youth and women, or sustainable financing schemes for climate and environment protection projects. Cooperation with education providers is necessary to integrate the topic into the curricula of formal and non-formal learning, provide courses on social entrepreneurship, and to promote entrepreneurial thinking. The topic of digitalisation also needs to be included to promote digital solutions for social purposes. However, these measures require more coordination and harmonisation efforts.

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